

TEXAS DEPARTMENT OF INSURANCE

FINAL PRESENTATION TO THE TEXAS LEGISLATURE

**INTERIM CHARGES: THE COST OF WEATHER-RELATED PROPERTY CLAIMS AND
RELATED LITIGATION**

FEBRUARY 1, 2017

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TDI Residential Property Hail Litigation Data Call Overview

On February 24, 2016, and March 14, 2016, Commissioner Mattax received requests from the Chairs of the Senate Business and Commerce Committee and the House Insurance Committee, respectively, to collect data on hailstorm claims litigation in Texas to assist the committees with their interim charges on the topic. Accordingly, in March 2016, the Texas Department of Insurance (TDI) developed a draft data call to gather information about the cost of weather-related residential property claims and the incidence of litigation of these claims. The data call was designed to collect information TDI did not already have from its residential property statistical plan. TDI published the draft data call on its website, inviting written comments and announcing an April 21, 2016, public meeting to discuss the data call, which was led by Commissioner Mattax. TDI received written comments from eight interested parties, and six people commented at the April 21, 2016, meeting. TDI made several changes to the data call in response to comments and issued the data call on May 20, 2016. TDI gave insurers 90 days to complete the data call, with responses due on August 19, 2016. Insurers comprising about 140 separate insurance companies submitted responses to the data call.

Data Call – Three Sections

Section I asked for a 5 percent random sample of all wind and hail claims for events in 2010-2015. All admitted companies except farm mutual insurers were required to report Section I data. TDI did not require farm mutual insurers to report because they are exempt from reporting data under TDI's *Statistical Plan for Residential Risks*.

Section II asked for a 100 percent sample of all wind and hail claims for nine specified events (only the top 15 companies with paid claims for the nine specified events were required to respond; it was optional for other companies including farm mutual insurers).

Both Sections I and II requested

- basic information about the policy;
- significant dates in each claim's history;
- insurer costs associated with the claim;
- whether an attorney or public adjuster (PA) represents the claimant;
- attorney, PA, and suit-related information; and
- information on pre-suit settlement efforts.

Section III required companies to complete an underwriting survey, which asked companies about actions such as nonrenewals, reductions in coverage, more restrictive underwriting guidelines, and rate changes, either statewide or in particular regions, in response to increased weather-related litigation (all admitted insurers except farm mutual insurers were required to respond to the survey).

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Data Call Challenges

- Some companies had to manually review claim files to provide the information. Some companies did not report information requiring manual review.
- While TDI reviewed the data for reasonability, completeness, and consistency with other data sources, TDI did not audit or verify the data because this is outside the normal practices for data calls and would have required TDI to conduct on-site reviews of insurers' books and records. TDI excluded companies with significant outstanding data questions from the preliminary results.
- Complete Section I data for one top 10 insurer is not included in this analysis. In October, this insurer submitted data for four companies. The insurer submitted data for the remaining companies on December 14, 2016, but TDI was unable to resolve outstanding questions about these companies' Section I data in time for the final presentation. For this reason, their Section I data is not included.

Data Call Summary

- The data in this presentation is an update to the data TDI staff presented to the Senate Business and Commerce Committee on October 5, 2016, and the House Insurance Committee on December 1, 2016. The hail litigation data in this presentation contains updated exhibits that use more data, as well as new exhibits that are the result of additional analysis that TDI performed.
- The hail litigation data in this presentation is provided in two parts. The first part provides data from approximately 65,000 randomly sampled claims from all windstorm and hail events in 2010-2015 that insurers reported under Section I of the data call. The second part provides data from approximately 83,000 claims for nine specific hail storms occurring from 2009-2015 that insurers reported in Section II of the data call. Please note that the Section II data includes data from a farm mutual insurer.
- Although farm mutuals were not required to report the Section II data, they were allowed to voluntarily submit the data to TDI. One farm mutual chose to do so and their data is included in TDI's Section II analysis.
- To identify any regional differences in trends, the state was divided into 10 different geographic regions based generally on the rating territories TDI promulgated before the enactment of SB 14 (2003).

EXECUTIVE SUMMARY

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Claims with attorneys, lawsuits, or PAs: Beginning in 2012, there was an increase in the percentage of windstorm and hail claims involving attorneys, PAs, or lawsuits. (Page 10)

Claims with attorneys, PAs, or lawsuits in South Texas: The data indicates a majority of claims with attorney or PA involvement are in South Texas. South Texas accounts for about 4 percent of all sampled windstorm and hail claims and about 51 percent of claims with known attorney or PA involvement. (Page 11)

South Texas lawsuits: South Texas accounts for about 56 percent of claims involving lawsuits. (Page 12)

Average claim payment for claims involving attorneys, lawsuits, or PAs: The data indicates that claims involving attorneys or PAs involve higher payments to claimants (referred to as "losses") and higher settlement expenses for insurers (referred to as "allocated loss adjustment expense" or "ALAE"). ALAE does not include all costs to adjust and settle a claim, but only those costs the insurer can attribute to an individual claim. The data indicates the cost of an average claim with an attorney or PA involved is three to four times the cost of a claim without an attorney or PA involved. Because the loss and expense data in the last two years of the Hail Litigation Data Call is immature, TDI cannot come to any definite conclusions on trends in the average cost per claim for claims involving attorneys, lawsuits, or PAs. The data is immature because more recent years tend to have a larger number of claims that have not yet been reported or have not been settled by the insurer. (Page 30)

Number of days before an attorney or PA is known to be involved with a claim: The data indicates that for claims involving attorneys, in 48 percent of the claims, attorneys are known to be involved more than six months after the claim is reported to the insurer. The average time before an attorney is known to be involved with a claim is about eight months. In about 7 percent of the claims involving attorneys, the attorneys are involved within a few days after the claim is reported to the insurer. The data also indicates that for claims involving PAs, in 52 percent of the claims, PAs are known to be involved more than 30 days after the claim is reported to the insurer. The average time before a PA is known to be involved with a claim is about four months. In about 23 percent of the claims involving PAs, the PAs are involved within a few days after the claim is reported to the insurer. (Pages 31-32)

Claims closed without payment: The Section I data indicates that over the period 2010-2015, the percentage of claims closed without payment to the policyholder remained relatively constant at 10 to 11 percent of claims. The Section I data also indicates that claims involving attorneys, PAs, or lawsuits had a lower percentage that were closed, both with and without payment. (Pages 21-23)

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Claims closed with and without payment at first close: The percentage of claims that were initially closed without payment increased by about 3 percent in 2012-2015 compared to 2010-2011. Some of this increase was due to higher percentages of claims not closed and claims where TDI could not determine whether the claim was closed with or without payment to the policyholder ("closed with unknown payment at first close"). (Page 24)

Claims involving attorneys, PAs, or lawsuits had a higher percentage that were initially closed without payment. About 13 percent of all claims were initially closed without payment, whereas about 30 percent of claims involving attorneys or PAs were initially closed without payment. However, in both cases there were a significant percentage of claims initially closed with unknown payment. (Pages 25-26)

Reopened claims: The data shows that one in three sampled claims were reopened by insurers. For claims involving an attorney or PA, 51 percent were reopened (49 percent not reopened), 28 percent were first reopened after the attorney or PA became involved, 20 percent were first reopened before the attorney or PA became involved, and for 3 percent, there was not enough information to determine if the attorney or PA became involved before or after the claim was first reopened. For claims involving lawsuits, 23 percent were not reopened (77 percent reopened), 43 percent were first reopened after the attorney became involved, and 34 percent were first reopened before the attorney became involved. (Pages 33-34)

Settlement efforts prior to suit: The data on pre-suit settlement efforts indicates that: (1) about 3 to 4 percent of claims with lawsuits involve pre-suit appraisal; (2) about 2 percent of claims with lawsuits involve pre-suit mediation or arbitration; (3) about 40 to 50 percent of claims with lawsuits involve a pre-suit demand from the plaintiff; (4) about 50 to 60 percent of claims with lawsuits involve a pre-suit settlement offer from the insurer; (5) the average highest plaintiff demand before suit was around \$100,000, and the average highest insurer settlement offer before suit was about \$10,000 (Section I) to \$13,000 (Section II). (Section I data: Pages 35-37; Section II data: Pages 48-50)

Data for specified hailstorms: Section II data consisted of a 100 percent sample of claims from nine specified events based on average claim size, number of claims, and geographic diversity. The data shows the following:

- The average loss and ALAE for the March 28, 2012, Hidalgo County event (Hidalgo event) was approximately \$11,000 higher than the average for the other eight events. (Page 39)

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- The Hidalgo event and the May 27, 2013, Amarillo Area event (Amarillo event) show a higher percentage of claims with attorney or PA involvement and a higher percentage of claims with lawsuits. (Page 40)
- The Hidalgo and Amarillo events have higher percentages of losses and ALAE attributable to claims involving attorneys, PAs, or lawsuits when compared to the other events. (Page 44)
- Both the Hidalgo and Amarillo events show an increase in attorney representation and suits filed approximately two years after the event. (Pages 45-46)

Claims bundling analysis of data for specified hailstorms: TDI looked for "bundles" as either: (1) demands or letters of representation (LOR) sent from the same law firm to the same insurer on the same day (LOR/demand letter method); or, (2) lawsuits filed by the same law firm against the same insurer on the same day (suit date method). There is no way to determine from the data whether a "bundle" involves a single demand from the plaintiff's attorney to settle all claims as a whole rather than individually.

TDI identified 22 bundles consisting of 147 claims using the LOR/demand letter method, and 68 bundles consisting of 636 claims using the suit date method. Depending on the method used to determine "bundles," bundled claims accounted for 8 to 21 percent of claims involving lawsuits. The average loss for bundled claims is similar to the average loss for unbundled claims involving attorneys or lawsuits. (Pages 51-52)

Market Information Summary

Claim frequency: Overall, in the last four years, the frequency of hail claims has been below the 16-year average. A period of 16 years was selected because 2000 is the first full calendar year where TDI is able to distinguish hail from windstorm claims. Windstorm claim frequency and costs have been below the longer-term historic average, but windstorm claim frequencies are subject to more variability because of hurricanes, which are infrequent but can be severe. The cost of hail claims over the last four years is 10 percent above the 16-year average. (Pages 59-60)

Trends: TDI examined trends in windstorm and hail claims by region. The data shows a spike in hail claim frequency in the Panhandle in 2013 and a smaller spike in South Texas in 2012. This means there were large hailstorms in those areas. The data also shows a spike in the average loss per windstorm and hail claim in South Texas, consistent with the data in the Hail Litigation Data Call. There is not an equivalent spike in severity in other parts of Texas. (Pages 64-65)

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Underwriting profits: Insurers have been able to consistently make an underwriting profit for homeowners insurance in Texas in 2012-2015. Because Texas is a state with exposure to both hurricane and severe thunderstorm events, it is reasonable to expect insurers to make an above average underwriting profit in years with no hurricanes or less than average severe thunderstorm events. Similarly, it is reasonable to expect insurers to make a below average underwriting profit (or sustain an underwriting loss) in years with significant hurricanes or greater than average severe thunderstorm events. (Page 54)

Residential property hail losses in 2016: Preliminary data for the first nine months of 2016 shows there were more hail losses paid in the first nine months of 2016 than were paid in any calendar year since TDI has been tracking hail losses (16 years). In the first nine months of 2016, insurers paid about \$4.3 billion in residential property hail losses. Previously, the highest annual amount was in 2015, when insurers paid about \$1.9 billion in hail losses for the entire year.¹ TDI has no data on litigation related to hail losses in 2016. (Pages 54-55)

Deductibles: While average windstorm and hail deductibles have increased throughout the state and substantially in some areas, there is no clear pattern of deductibles increasing in reaction to litigation on claims from weather-related perils. The pattern appears to be consistent with insurers increasing deductibles in areas where insurers are concerned with managing hurricane risk exposure. (Page 67)

Coverage changes: Statewide, the percentage of homeowner policies with the broadest coverage dropped after the mold crisis of 2002. Since the mid-2000s, this percentage has been increasing, but has remained relatively constant since 2013. While, in the last four years, the Panhandle has seen a slight decline in the percent of policies with broadest coverage, no clear pattern associated with windstorm and hail is apparent. Fourteen companies increased their use of restrictive endorsements, tightened their underwriting guidelines, or did both for new or renewal business. Specific geographic regions include coastal areas of Texas and Cameron, Willacy, and Hidalgo counties. (Page 70)

Underwriting actions: In response to the Underwriting Action Survey, seven insurers stated they intentionally reduced, limited, or stopped writing policies in Texas as a direct result of increased claims litigation from weather-related perils; two of those companies also nonrenewed policies. The counties affected include Hidalgo, Maverick, Webb, Potter, and Randall. One company increased its

¹Note, these amounts are on a calendar year basis. That is, amounts paid during a particular period regardless when the event occurred. In contrast, the amounts on Page 56 are total losses for all events that occurred within the year, projected to their estimated ultimate settlement value.

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minimum wind deductible for new business policies statewide. Twelve companies stated that they have increased rates for a residential line of insurance as a direct result of claims litigation. (Page 77)

Rates and average premium: TDI reviewed data from rate filings made by insurers with significant market share in areas that have reportedly experienced increased levels of hail litigation. For these areas, the data does not show a systematic pattern of rate increases that exceed the statewide increase. Rates follow losses, however, so companies may not have reflected expected costs for hail litigation in their rates yet. (Page 78)

TDI also reviewed industry aggregate average homeowner premiums statewide and by region. The data did not show a clear pattern of average premiums increasing greater than the statewide average in areas experiencing increased amounts of attorney or PA involvement and litigation. (Pages 73-75)

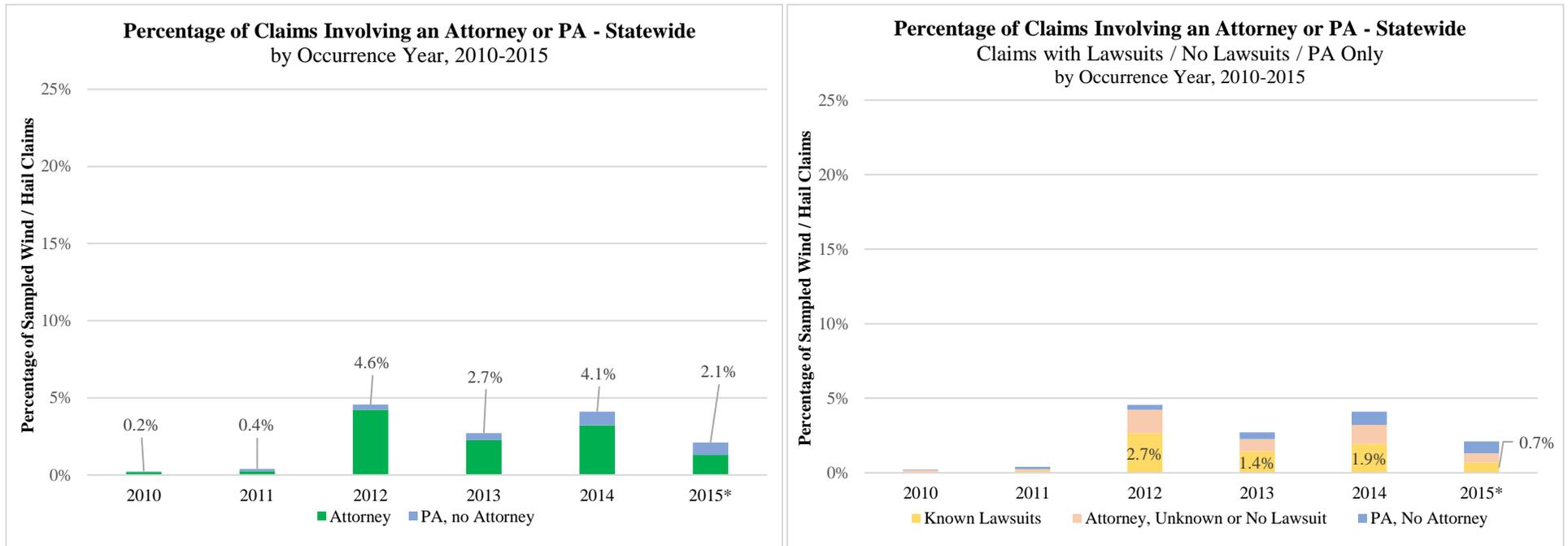
PART I

TDI RESIDENTIAL PROPERTY HAIL LITIGATION DATA CALL

SECTION I DATA – FINAL RESULTS

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Residential Property Hail Litigation Data Call (Section I)

A. Beginning in 2012, there was an increase in the percentage of windstorm and hail claims involving attorneys, lawsuits, or PAs.

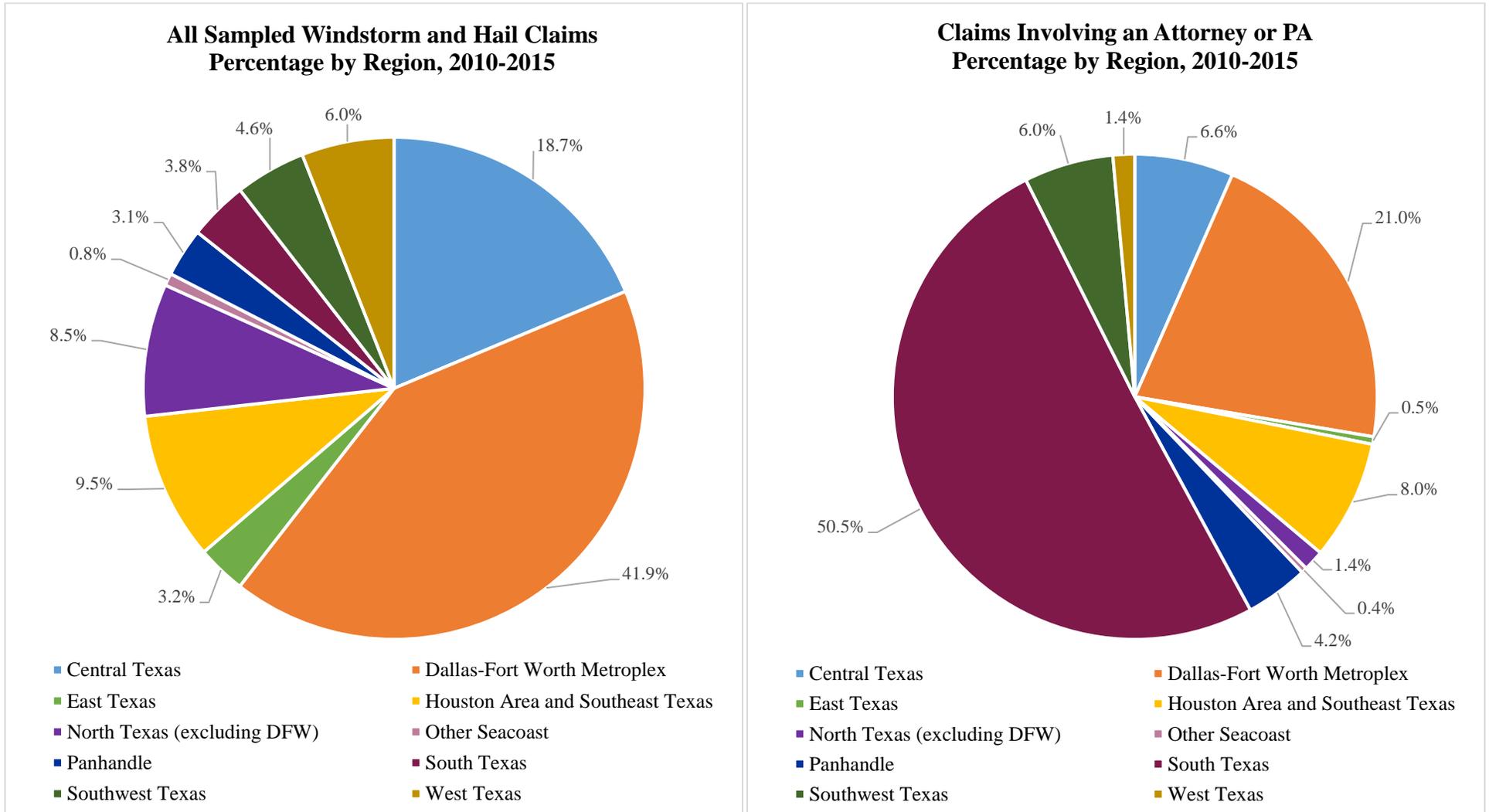


1. The data indicates that before 2012, known attorney or PA representation was about 0.3 percent (one in 300 claims). After 2011, known attorney or PA representation was about 3 to 4 percent (one in 25 to 30 claims), or an increase of about 10 times (or 900 percent).
2. The data indicates a corresponding increase in the rate of claims where the policyholder sued the insurer. Before 2012, the suit rate was about 0.1 percent (about one in 1,000 claims). After 2011, the lawsuit rate was about 1.5 to 2 percent (one in 50 to 60 claims), or an increase of about 15 times (or 1,400 percent).

*Data for this year is immature. These ratios may change as the data “matures” and additional claims occurring in this year are reported and settled by insurers. All years include claims reported through March 31, 2016. In some cases, companies included claims reported through the date they submitted the data to TDI.

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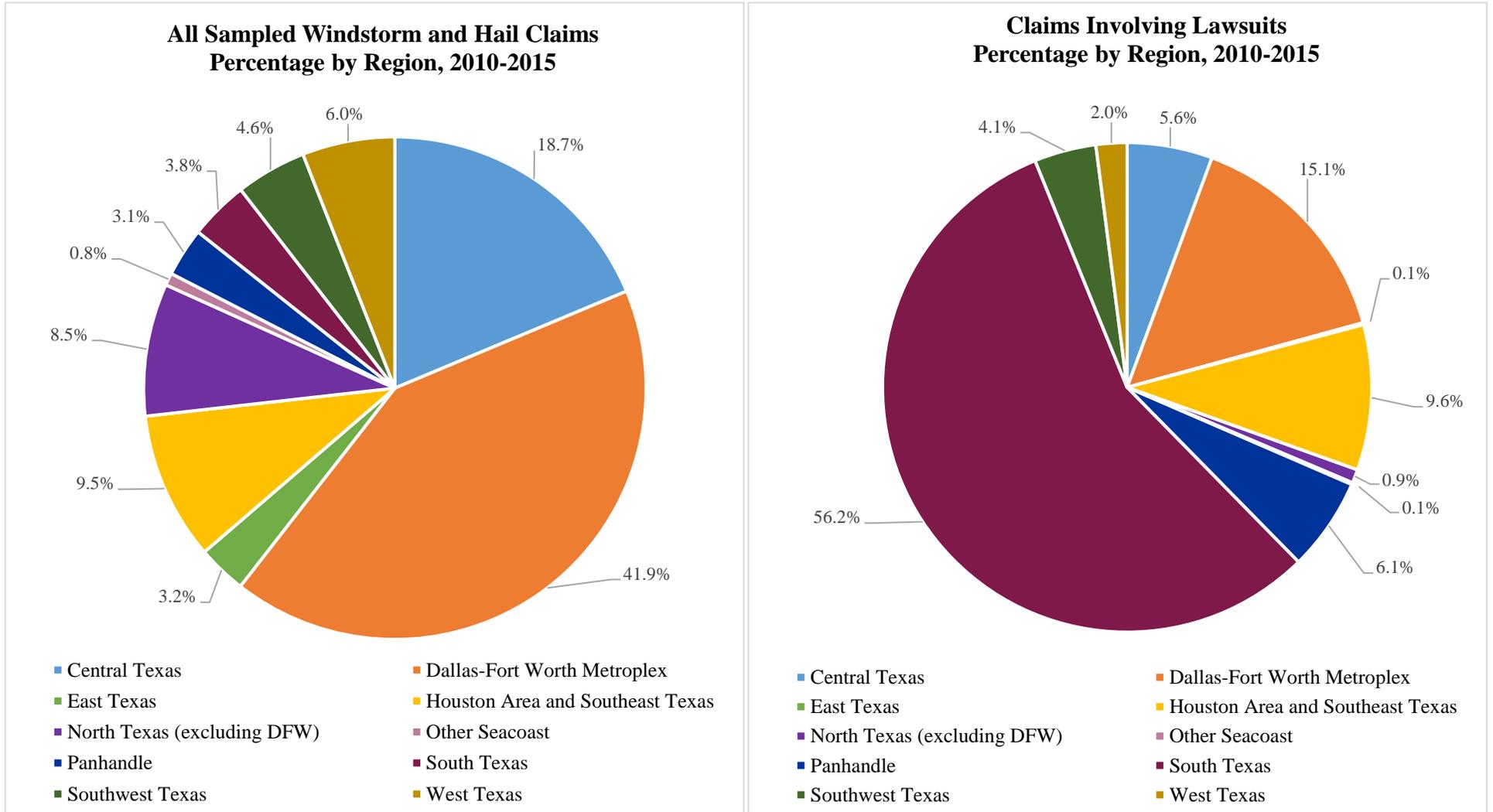
B.1. The data indicates a majority of claims with attorney or PA involvement are in South Texas. South Texas accounts for about 4 percent of all sampled windstorm and hail claims and about 51 percent of claims with known attorney or PA involvement.



Data includes claims reported through March 31, 2016. In some cases, companies included claims reported through the date they submitted the data to TDI.

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B.2. A similar relationship exists for claims involving lawsuits. South Texas accounts for about 56 percent of claims involving lawsuits.

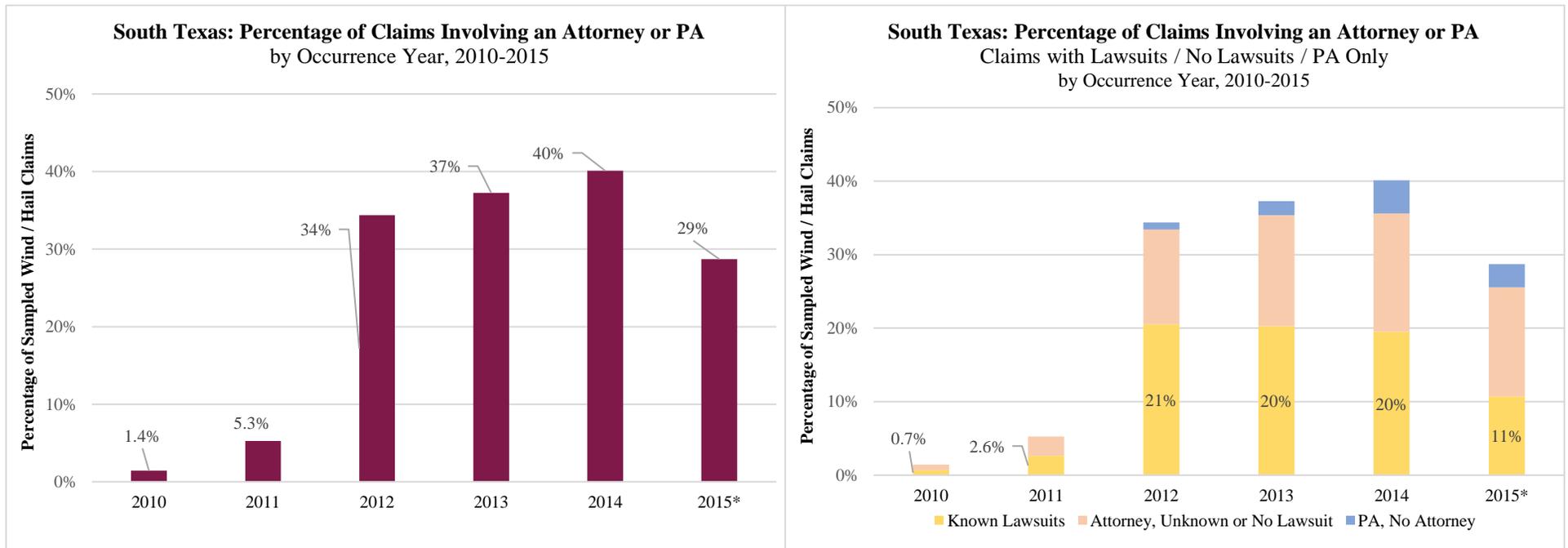


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B.3. Although the data shows South Texas had the largest increase in lawsuits and claims with attorneys and PAs, the data indicates Southwest Texas and the Panhandle also saw measurable increases.

- a. The data does not explain the reason for the increase in attorney and PA-involved claims in South Texas beginning in 2012, but there were two significant hailstorms in South Texas in late March and mid-April 2012. These two events generated about 30,000 paid claims and \$500 million² in residential property insured losses, and account for about 85 percent of the sampled claims, and 90 percent of the suits in South Texas in 2012.

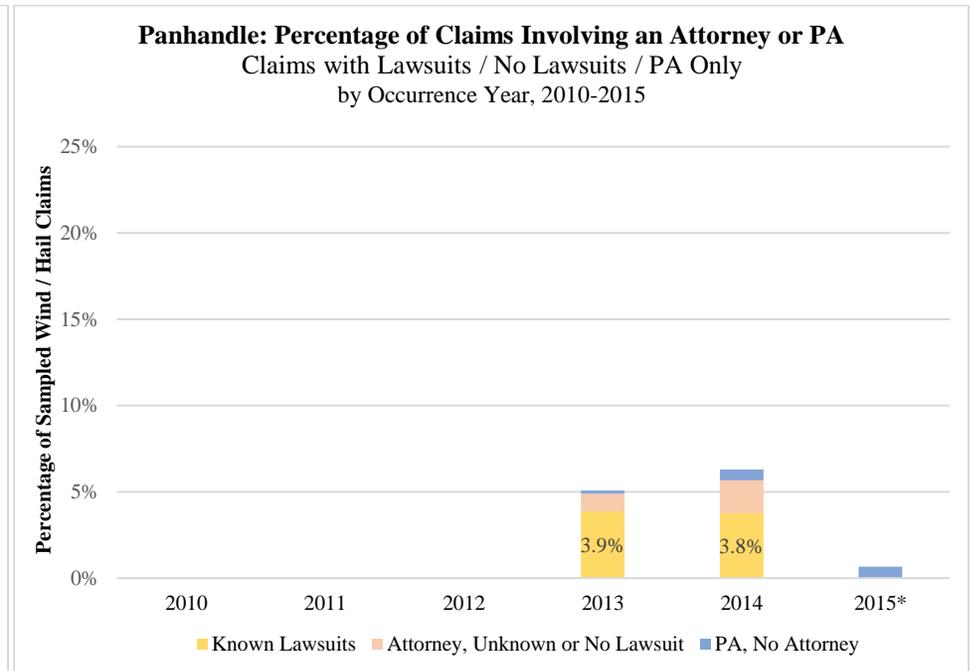
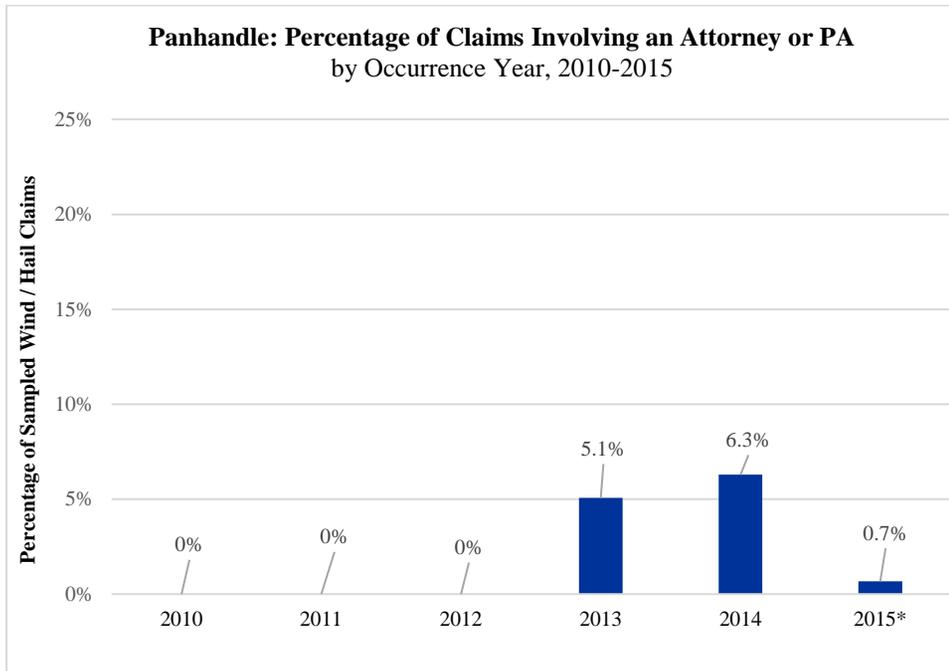


*Data for this year is immature. These ratios may change as the data “matures” and additional claims occurring in this year are reported and settled by insurers. Data for all years includes claims reported through March 31, 2016. In some cases, companies included claims reported through the date they submitted the data to TDI.

² Based on data TDI regularly collects through its *Statistical Plan for Residential Risks*, claims and losses are evaluated as of December 31, 2015.

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- b. The data does not explain the reason for the increase in attorney and PA-involved claims in the Panhandle beginning in 2013, but there was a significant hailstorm in the Panhandle in late May 2013. This event generated about 29,000 paid claims and \$316 million³ in residential property insured losses, and accounts for about 90 percent of the sampled claims and about 95 percent of the sampled suits in the Panhandle in 2013.



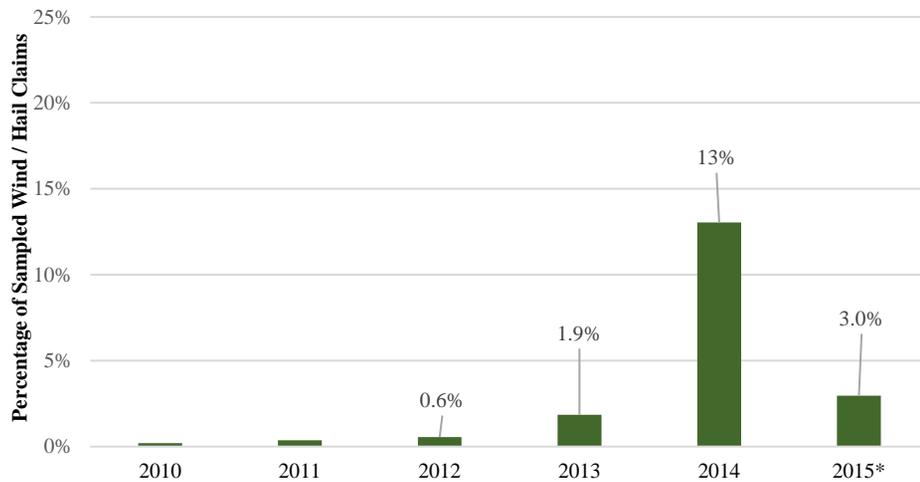
*Data for this year is immature. These ratios may change as the data “matures” and additional claims occurring in this year are reported and settled by insurers. Data includes claims reported through March 31, 2016. In some cases, companies included claims reported through the date they submitted the data to TDI.

³ Based on data TDI regularly collects through its *Statistical Plan for Residential Risks*, claims and losses are evaluated as of December 31, 2015.

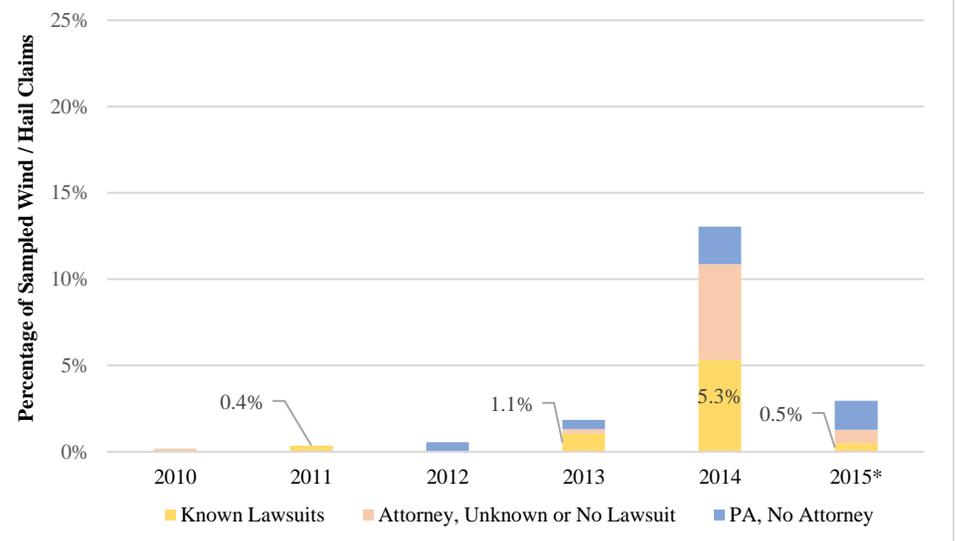
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- c. Similarly, the data does not explain the reason for the increase in attorney and PA-involved claims in Southwest Texas in 2014. About 90 percent of the suits are from three events in Maverick and Zavala counties in April and November of 2014, but these events only account for 35 percent of the sampled claims in Southwest Texas.

Southwest Texas: Percentage of Claims Involving an Attorney or PA
 by Occurrence Year, 2010-2015



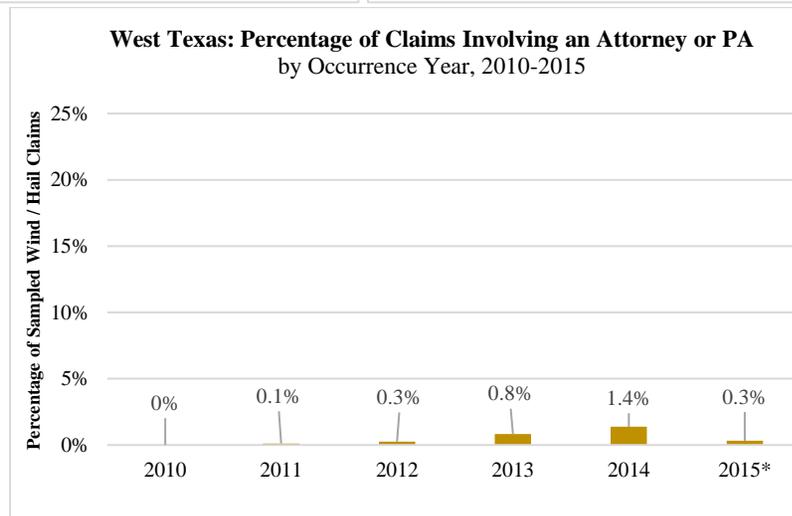
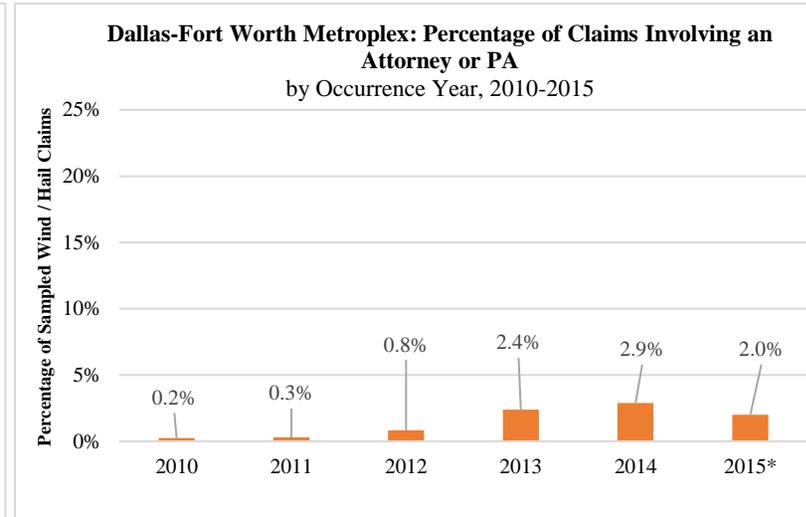
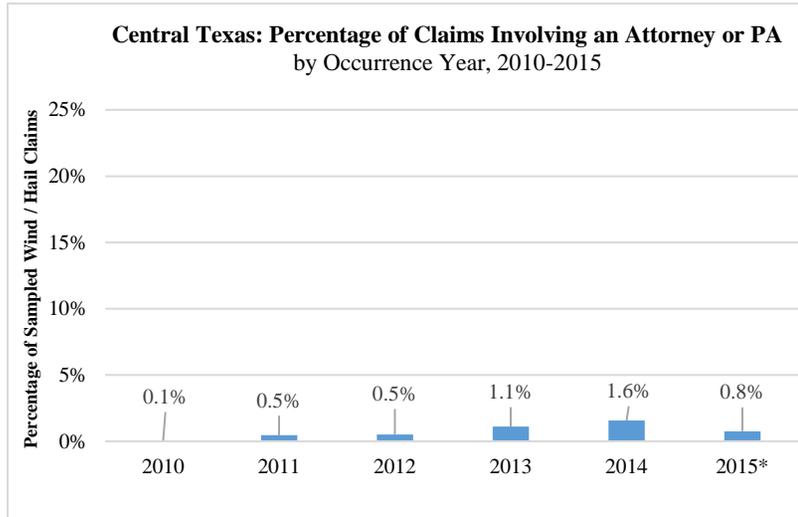
Southwest Texas: Percentage of Claims Involving an Attorney or PA
 Claims with Lawsuits / No Lawsuits / PA Only
 by Occurrence Year, 2010-2015



*Data for this year is immature. These ratios may change as the data “matures” and additional claims occurring in this year are reported and settled by insurers. Data for all years includes claims reported through March 31, 2016. In some cases, companies included claims reported through the date they submitted the data to TDI.

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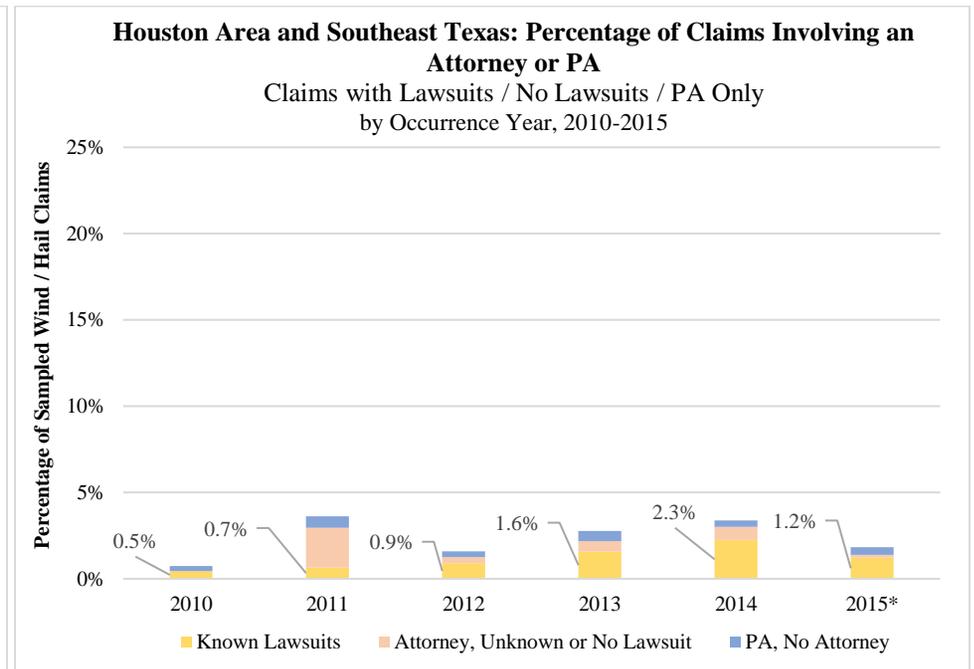
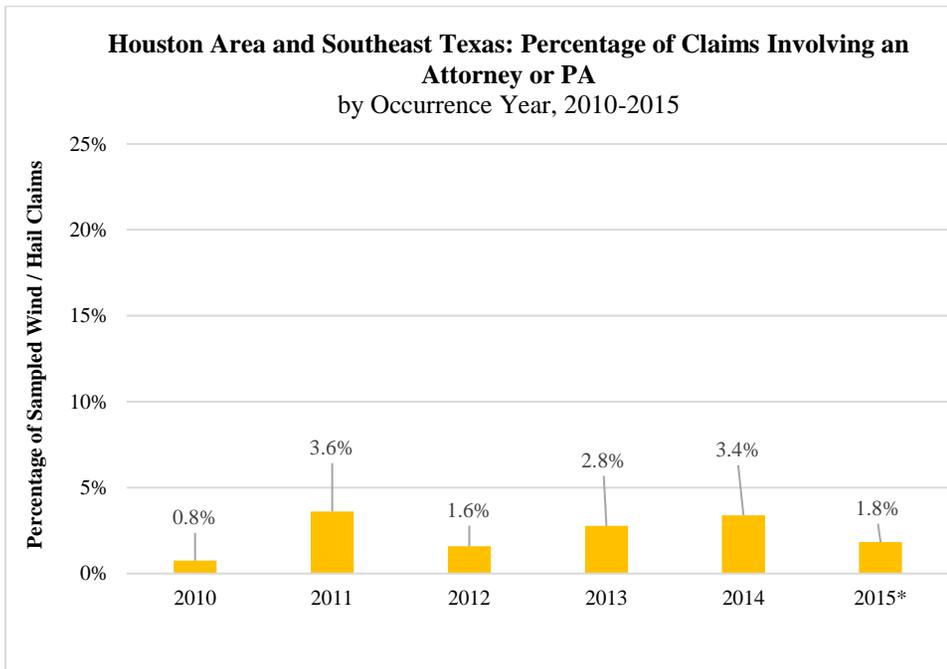
- d. Central Texas, Dallas-Fort Worth Metroplex, and West Texas also experienced increases in attorney or PA involvement, although the increases were smaller for these areas than in South Texas, the Panhandle, and Southwest Texas.



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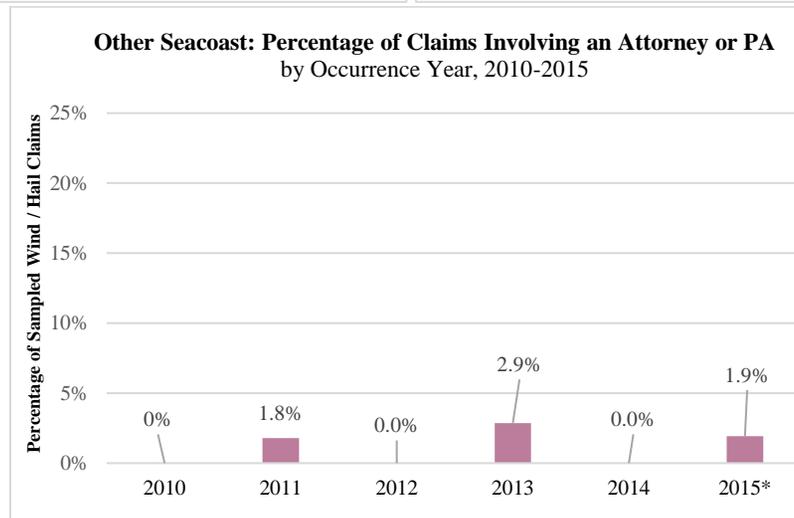
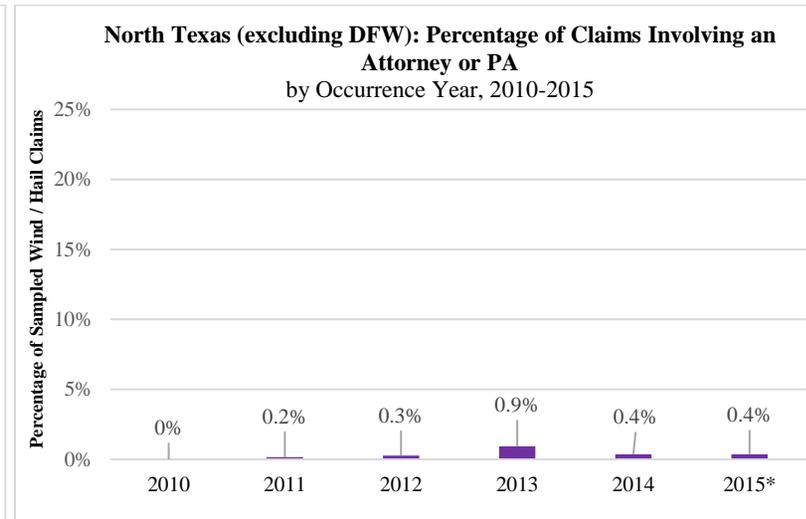
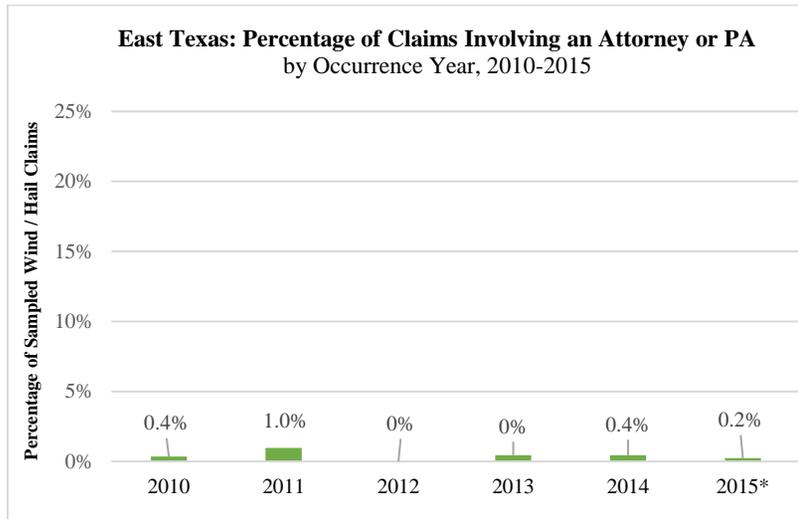
- e. In the Houston area and Southeast Texas, the percentage of windstorm and hail claims involving attorneys, PAs, and lawsuits was higher than the statewide average for the period 2010-2011. Although data for the Houston area and Southeast Texas indicates a higher average rate of attorney or PA involvement in 2012-2015 compared to 2010-2011, the data does not indicate a clear trend. However, the data does indicate a trend in the percentage of claims involving lawsuits.



*Data for this year is immature. These ratios may change as the data “matures” and additional claims occurring in this year are reported and settled by insurers. Data for all years includes claims reported through March 31, 2016. In some cases, companies included claims reported through the date they submitted the data to TDI.

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- f. The data does not indicate any noticeable trend in the percentage of claims involving attorneys or PAs in East Texas, North Texas (excluding DFW), or the Other Seacoast region.

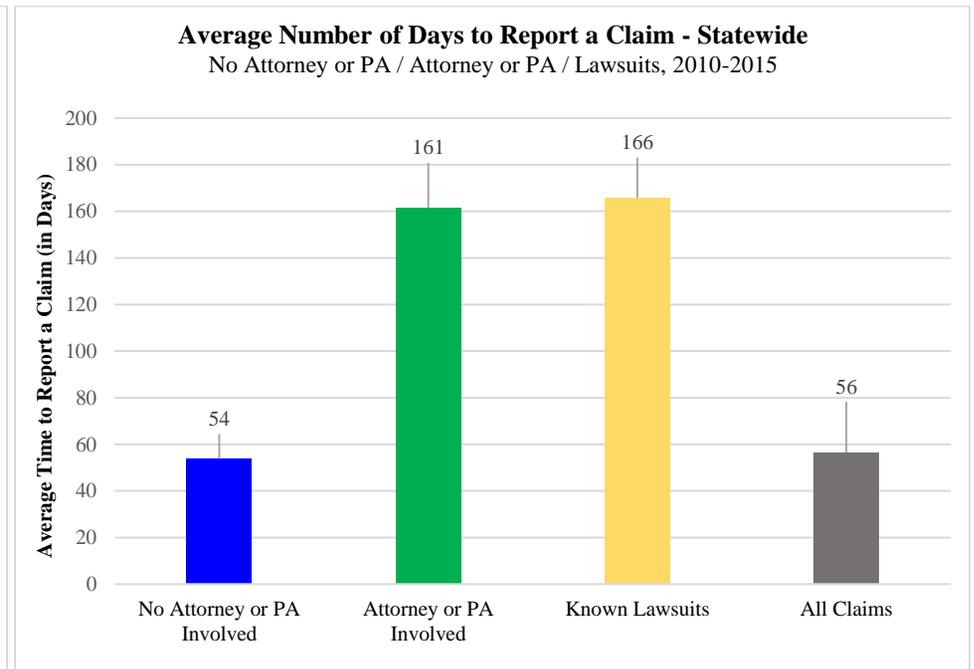
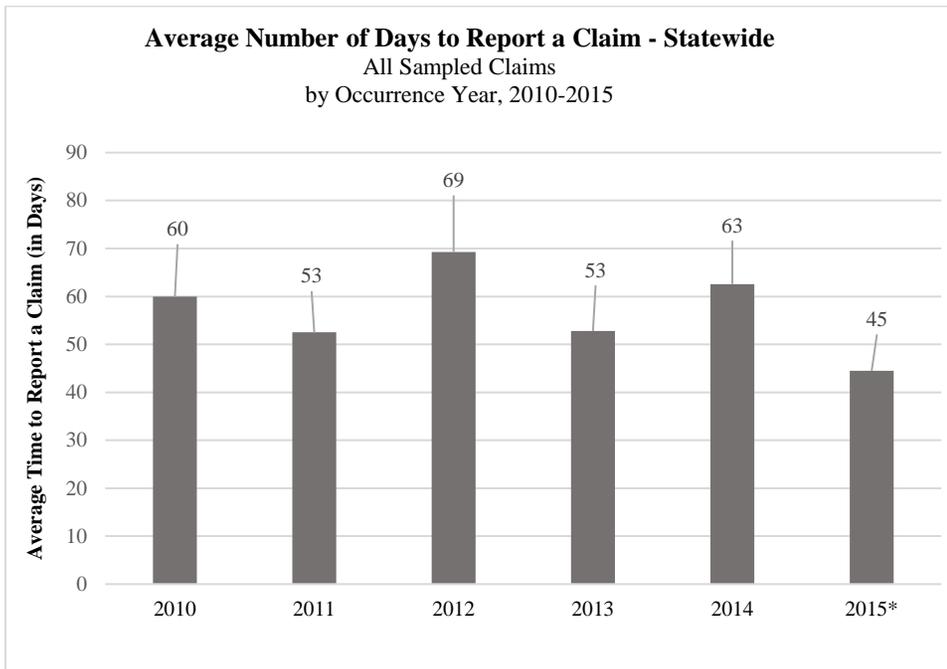


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C. The data does not show any trends in the amount of time before a claim is reported. However, claims with attorneys or PAs representing the claimant, on average, are reported later than claims without attorneys or PAs.

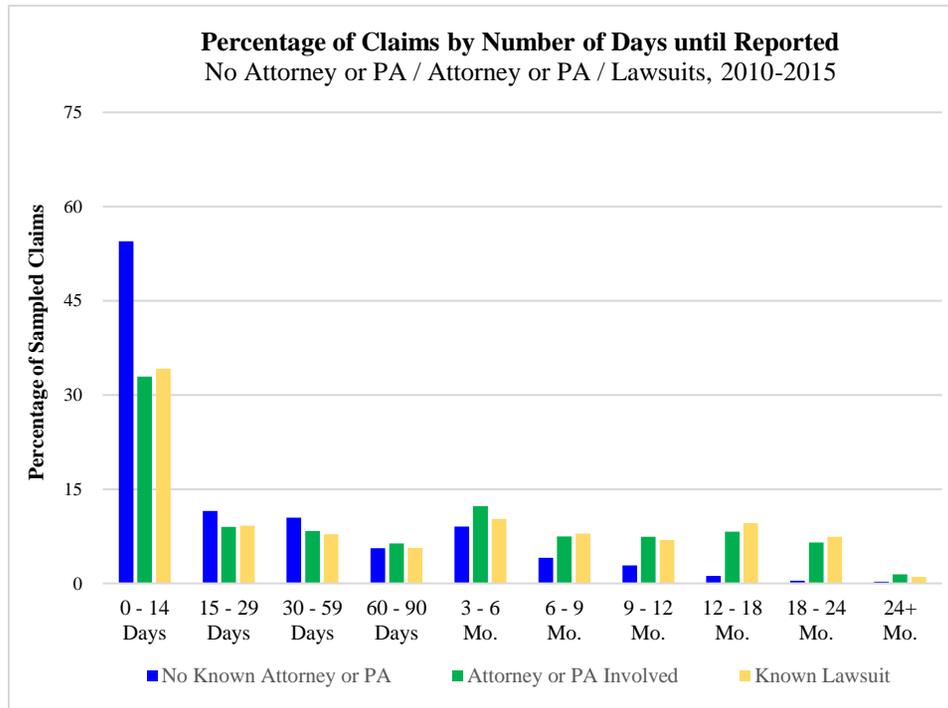
1. On average, claims that do not involve attorneys or PAs are reported to the insurer 54 days after the date of loss. Claims with attorneys or PAs representing the claimant, on average, are reported to the insurer 161 days after the date of loss.



*Data for this year is immature. This average may change as the data “matures” and additional claims occurring in this year are reported and settled by insurers. Data for all years includes claims reported through March 31, 2016. In some cases, companies included claims reported through the date they submitted the data to TDI.

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2. In the sample, claims involving attorneys have a higher percentage of claims reported more than six months after the date of loss.

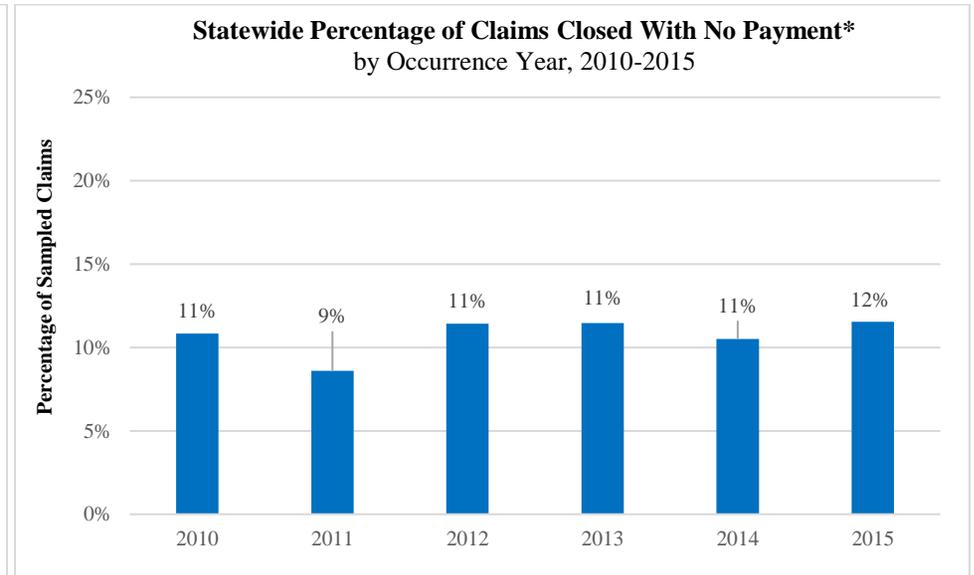
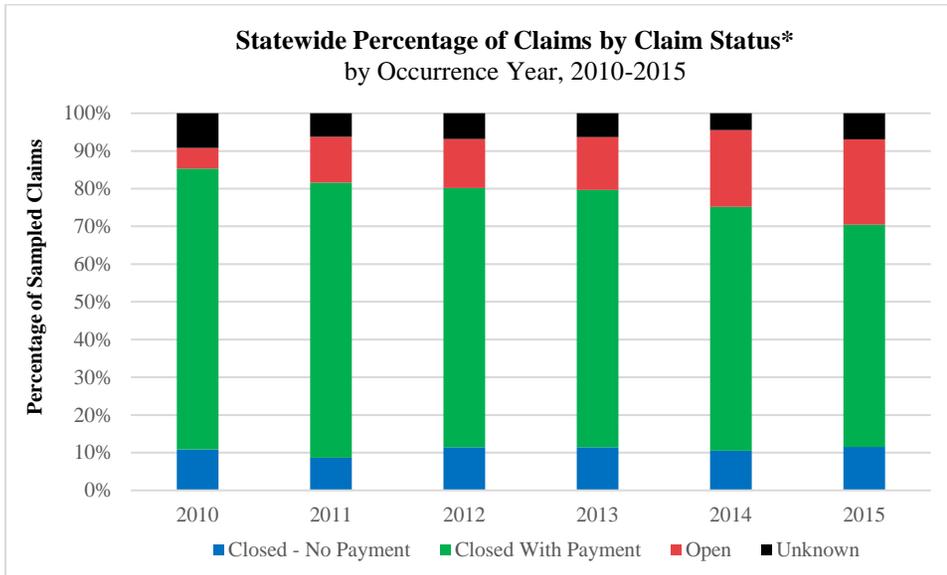


Type of Claim	Percentage of Claims by Time to Report				
	Less than 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 Years	2 or More Years
No Known Attorney or PA	82.0%	9.1%	7.0%	1.7%	0.3%
Attorney or PA Involved	56.6%	12.3%	14.9%	14.8%	1.4%
Known Lawsuit	56.9%	10.2%	14.9%	17.0%	1.0%
Total All Claims	81.4%	9.2%	7.2%	2.0%	0.3%

Note: Data includes claims reported through March 31, 2016. In some cases, companies included claims reported through the date they submitted the data to TDI.

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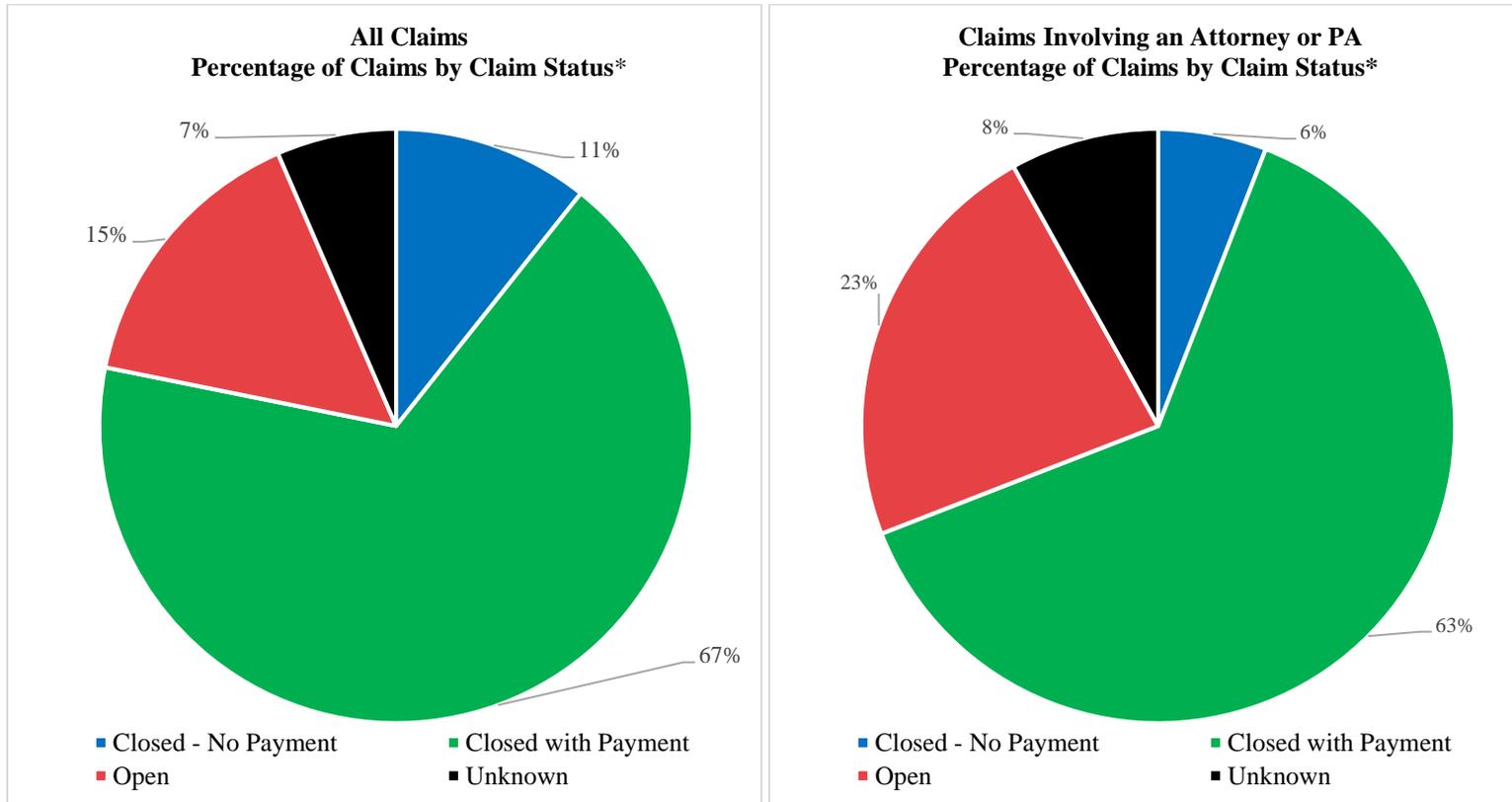
D.1. The data indicates that over the period 2010-2015, the percentage of claims closed without payment to the policyholder remained relatively constant at 10 to 11 percent of claims.



*Estimated claim status as of March 31, 2016. In some cases, claims status is as of the date the company submitted data to TDI.

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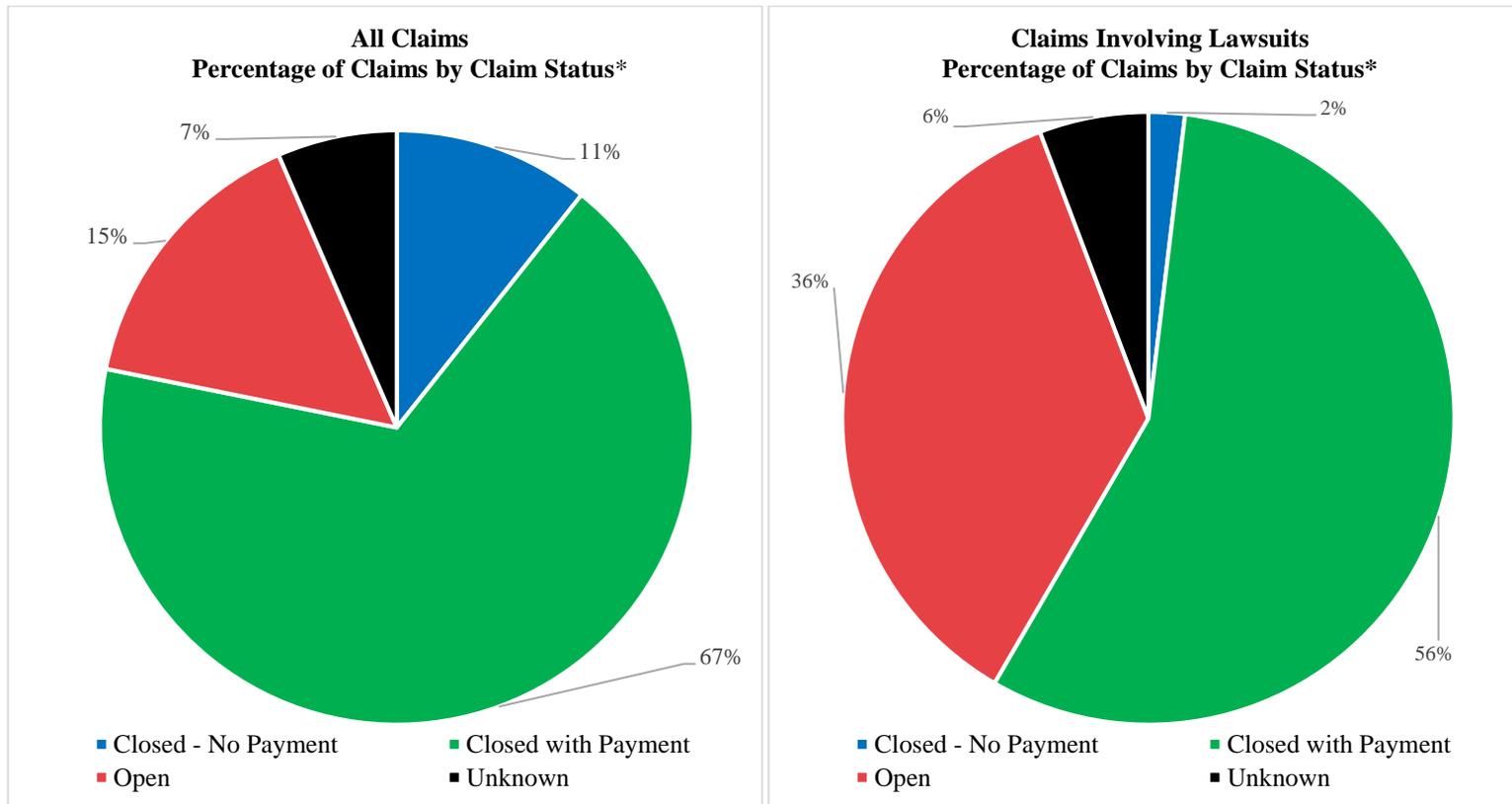
D.2. The data also indicates that claims involving attorneys had a lower percentage that are closed, both with and without payment to the policyholder. However, after accounting for the greater percentage of open and unknown claims, claims involving attorneys were more likely to be closed with payment to the policyholder than claims not involving attorneys or PAs.



*Estimated claim status as of March 31, 2016. In some cases, claims status is as of the date the company submitted data to TDI.

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D.3. The data indicates that claims involving lawsuits had a lower percentage that were closed, both with and without payment. After accounting for the greater percentage of open and unknown claims, claims involving lawsuits were more likely to be closed with payment than claims not involving lawsuits.

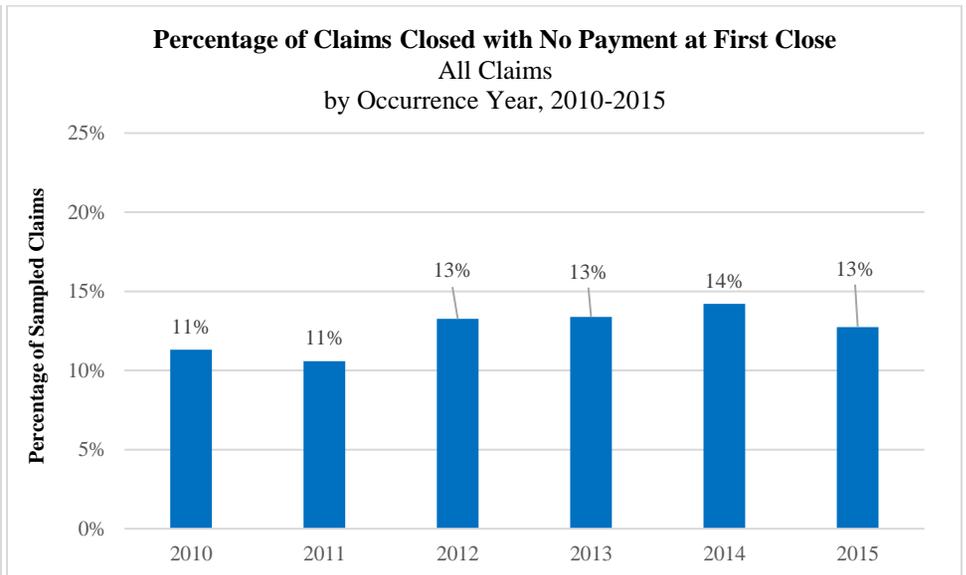
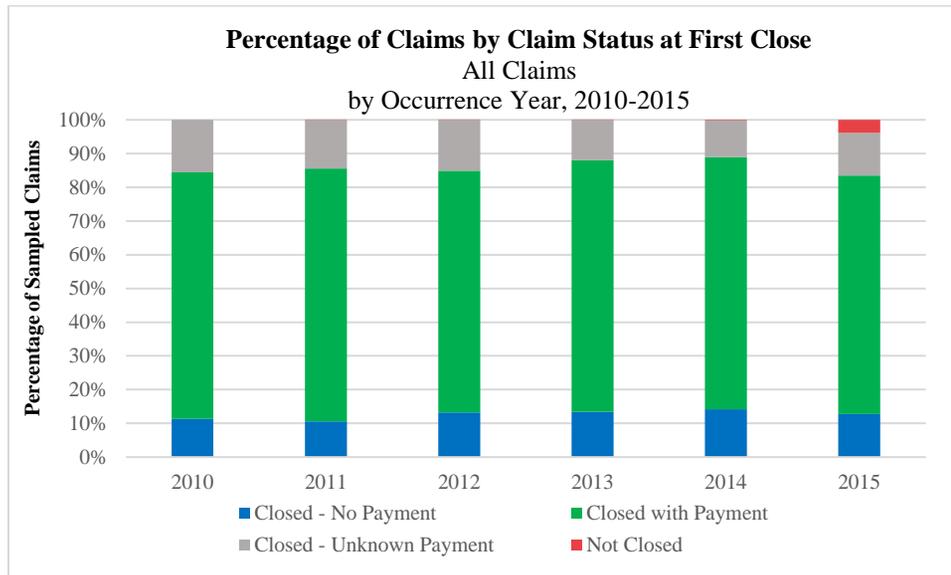


*Estimated claim status as of March 31, 2016. In some cases, claims status is as of the date the company submitted data to TDI.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section I)

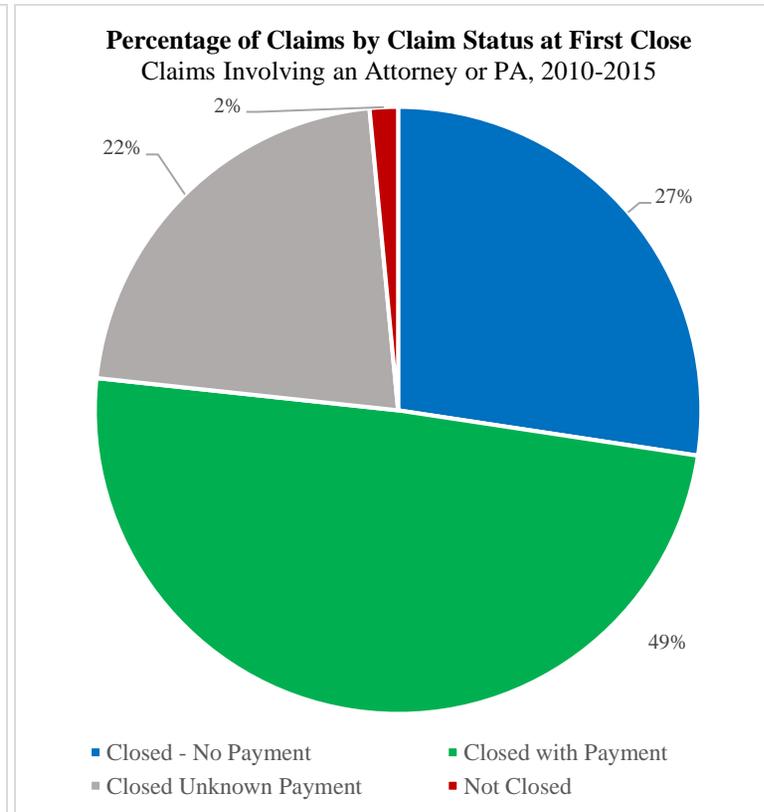
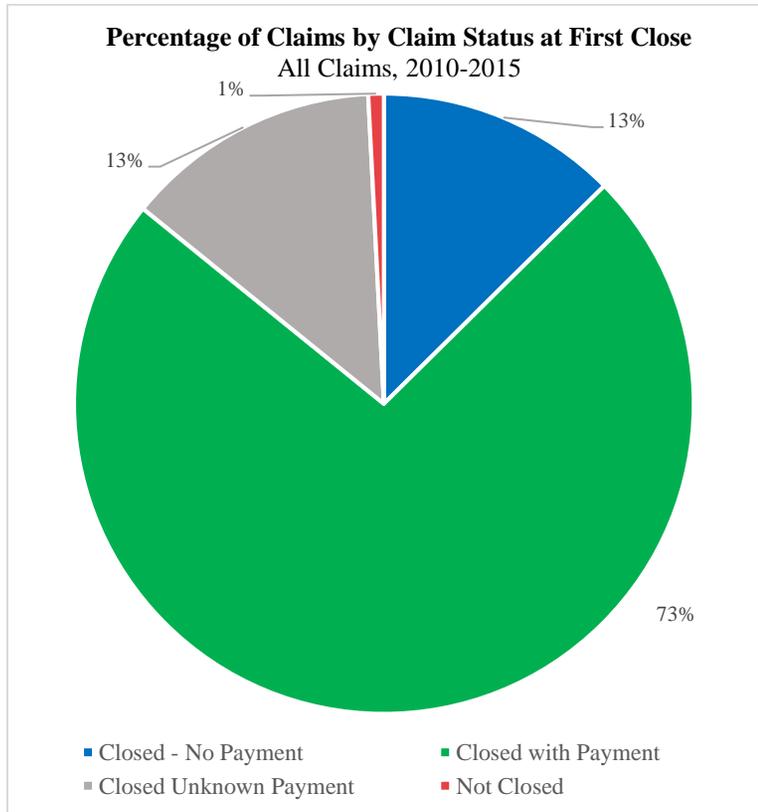
D.4. The data indicates that the percentage of claims closed without payment *at first close* increased by about 3 percent in 2012-2015 compared to 2010-2011. Some of this increase (about 1 percent) was due to a higher percentage of claims not closed in more recent years, and a higher percentage of claims closed with unknown payment at first close).

TDI examined whether, at the time the claim was first closed, it was closed with or without payment to the policyholder. Whereas D.1. through D.3. examine whether the "final" status is open, closed with payment, or closed without payment, this analysis examines whether the insurer closed the claim with payment to the policyholder the first time the claim was closed. In cases where a claim was closed once and not reopened, the "final" status and the status at first close will be identical. However, if a claim is closed and later reopened, the "final" status and the status at first close may be different.



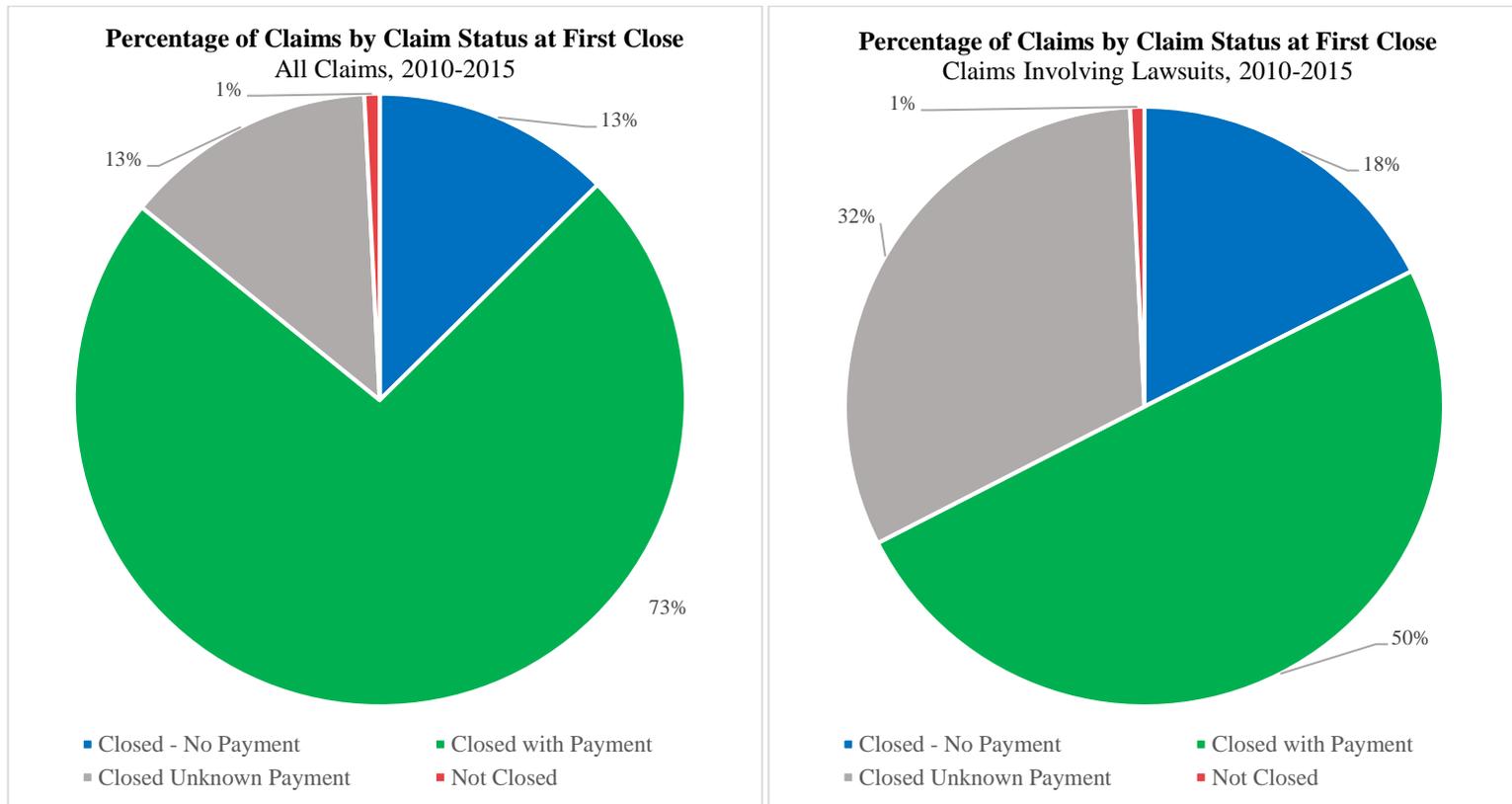
FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section I)

D.5. The data indicates that claims involving attorneys or PAs had a higher percentage of claims closed without payment *at first close*. Twenty-eight percent of claims involving lawsuits were closed with no payment at first close. In comparison, 13 percent of all claims were closed with no payment at first close.



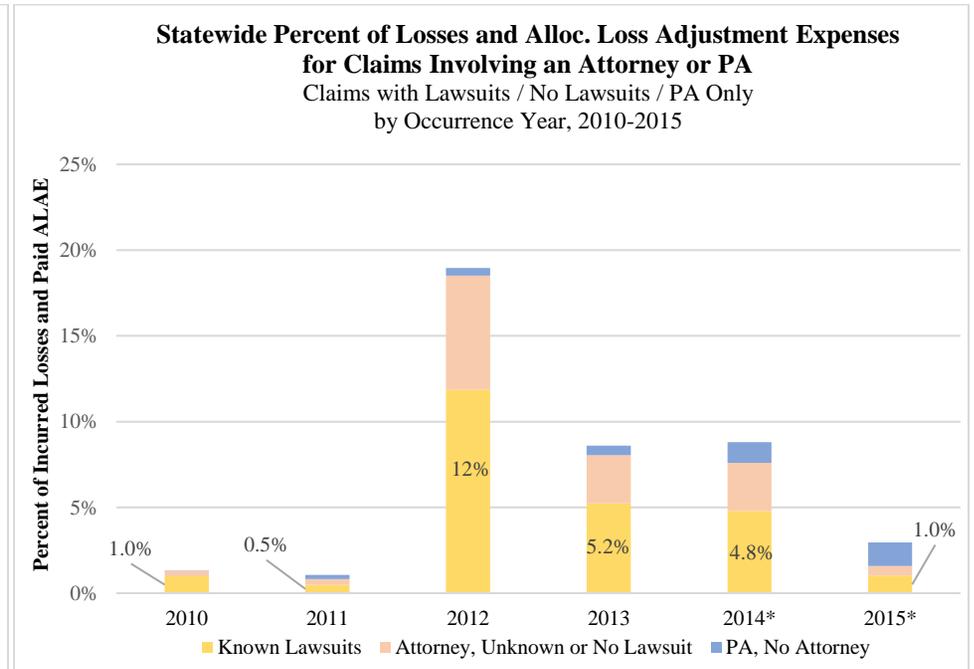
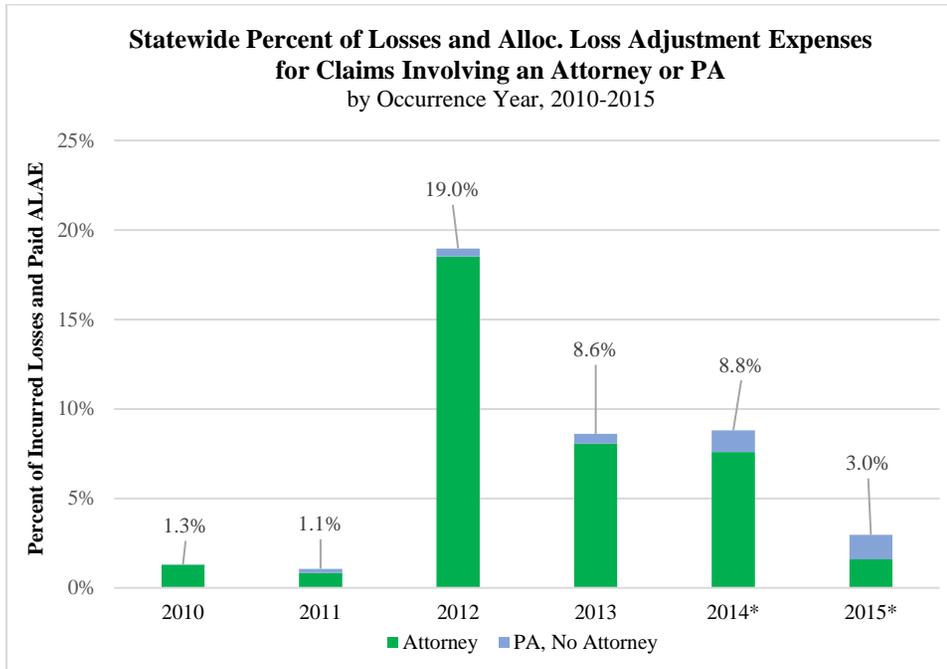
FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section I)

D.6. The data indicates that claims involving lawsuits had a higher percentage of claims closed without payment at first close. Claims involving lawsuits also had a higher percentage of claims closed with unknown payment at first close: 18 percent of claims involving lawsuits were closed with no payment at first close. In comparison, 13 percent of all claims were closed with no payment at first close. In comparison, 13 percent of all claims were closed with no payment at first close.



FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section I)

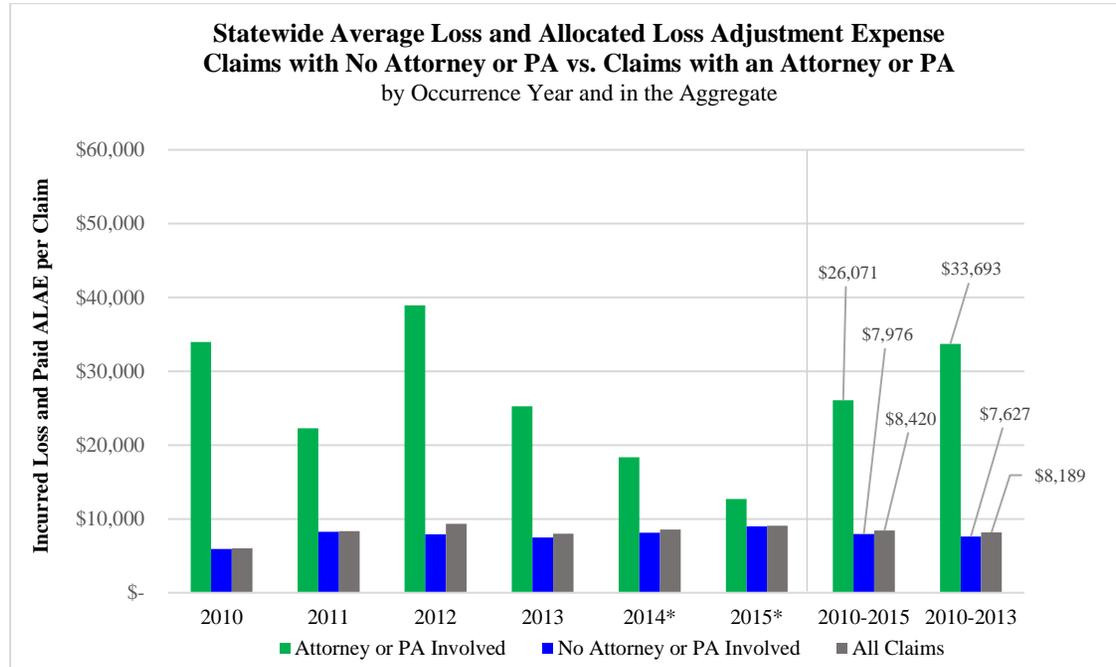
E. The data also shows an increase in 2012 in the percentage of losses and allocated loss adjustment expenses attributable to claims involving attorneys, lawsuits, or PAs.



*Data for these years is immature. These ratios may change as the data “matures” and additional claims occurring in these years are reported and settled by insurers. Loss and loss adjustment expenses are evaluated as of March 31, 2016.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section I)

F. The data indicates that claims involving attorneys or PAs have higher average losses and allocated loss adjustment expenses. The data indicates that the cost of an average claim with an attorney or PA involved is three to four times the cost of a claim without an attorney or PA. Because the loss and expense data in the last two years of the Hail Litigation Data Call is immature, TDI cannot come to any conclusions on trends in the average cost per claim for claims involving attorneys or litigation.

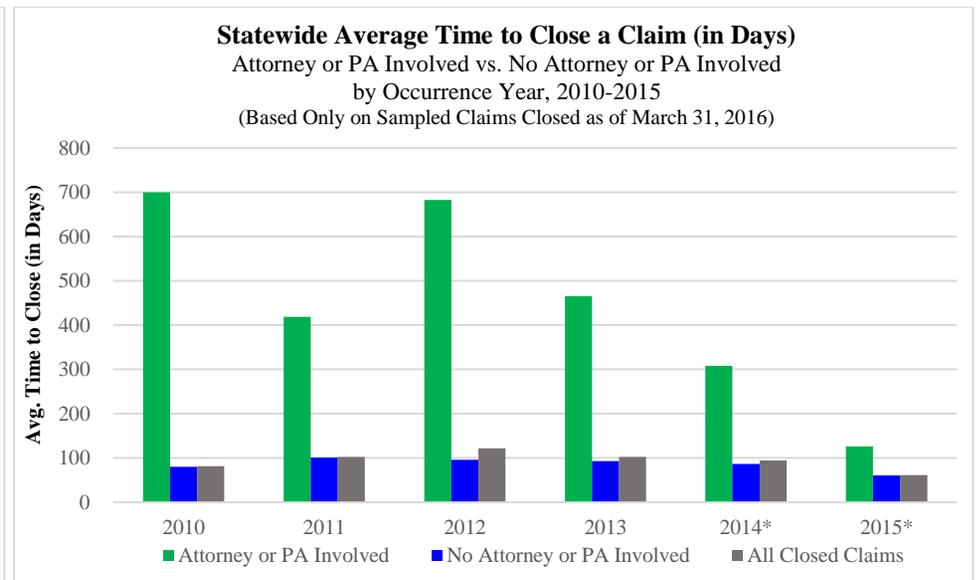
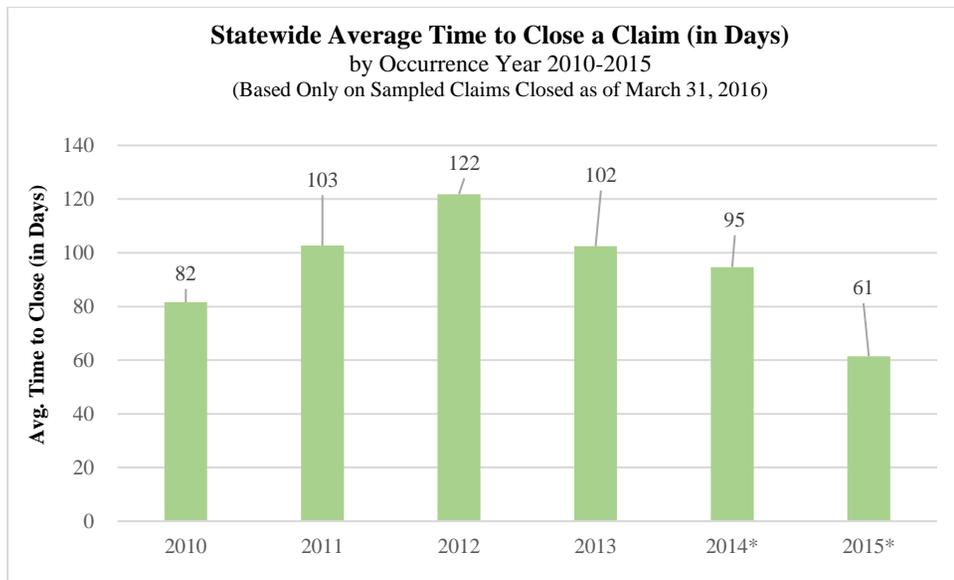


The sampled data seems to indicate a downward trend in the cost of claims with attorneys or PAs. There are two things to keep in mind when reviewing the trend. First, claims involving attorneys and suits take longer to settle and tend to settle for higher amounts. TDI’s review of industrywide data (all claims) for the two 2012 South Texas events with relatively high rates of attorney involvement indicate that the average loss payment after more than three years was 1.75 times greater than the average loss payment at the end of the first year. Second, for a given year, the number of claims involving attorneys may be relatively small, particularly for 2010 and 2011. This means the averages have a much greater amount of variability.

*Data for these years is immature. These averages, particularly the average cost of attorney or PA claims, may change as the data “matures” and additional claims occurring in these years are reported and settled by insurers.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section I)

G.1. TDI also reviewed trends in the average time for insurers to close a claim. The data appears to show a downward trend in the time it takes an insurer to close a claim. However, because the last two years of the preliminary data only include claims reported and closed as of March 31, 2016, it does not include claims that take a long time to be reported and settled. This is especially true for claims involving attorneys or PAs (see C.2.). The data shows an increase in the time insurers took to close a claim in 2012, but this may be due to the increase in the number of claims with attorney or PA involvement, which have a longer average time to settle.

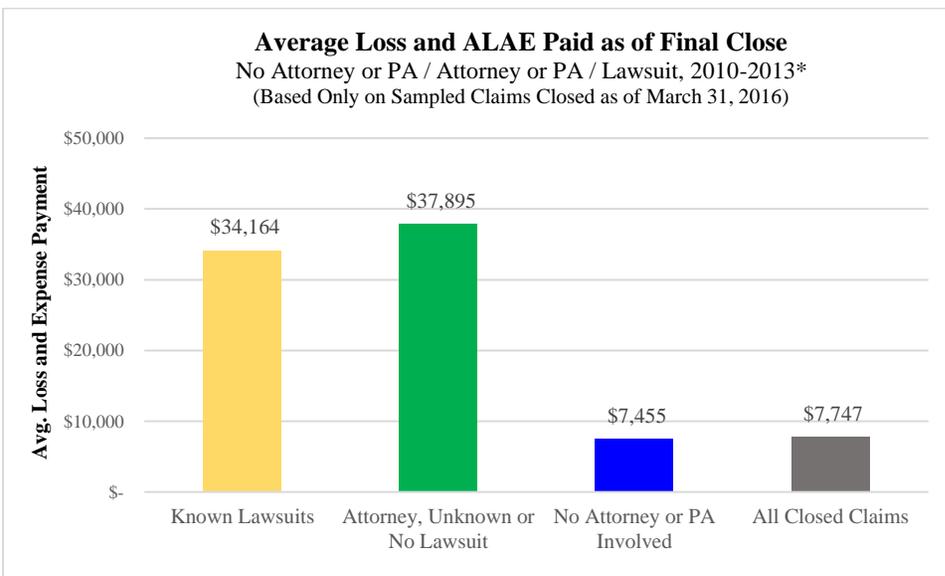
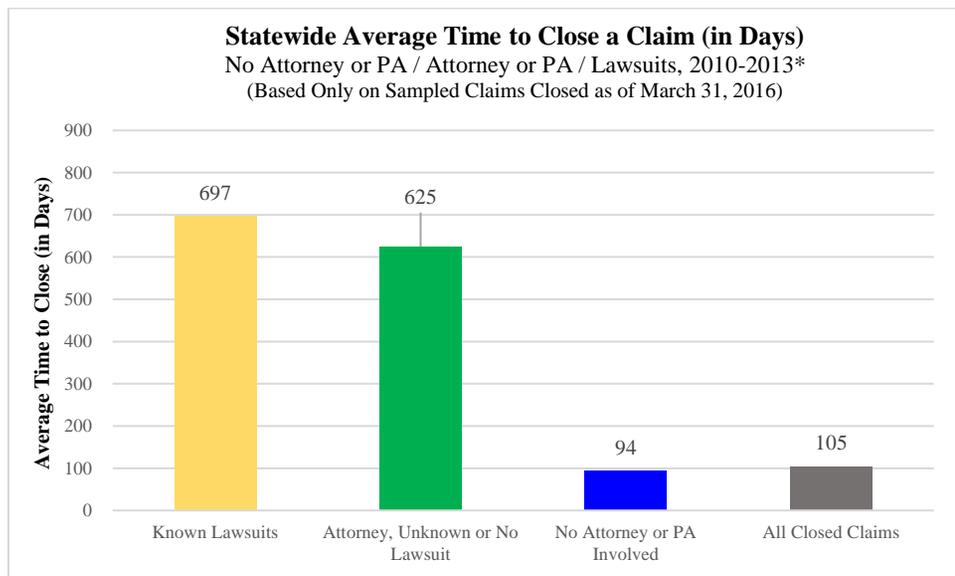


Note: There are few claims with attorney or PA involvement in our sample for 2010 and 2011; this can cause a large amount of variability in the averages.

*Data for these years is immature. These averages will change as claims occurring in these years that take more time to be reported and closed are settled by insurers. Data includes claims reported through March 31, 2016. In some cases, companies included claims reported through the date they submitted the data to TDI. In some cases, claims status is as of the date the company submitted data to TDI.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section I)

G.2. Claims with attorneys or suits tend to take longer to settle, tend to settle for higher amounts, and involve more claims adjusting expenses.



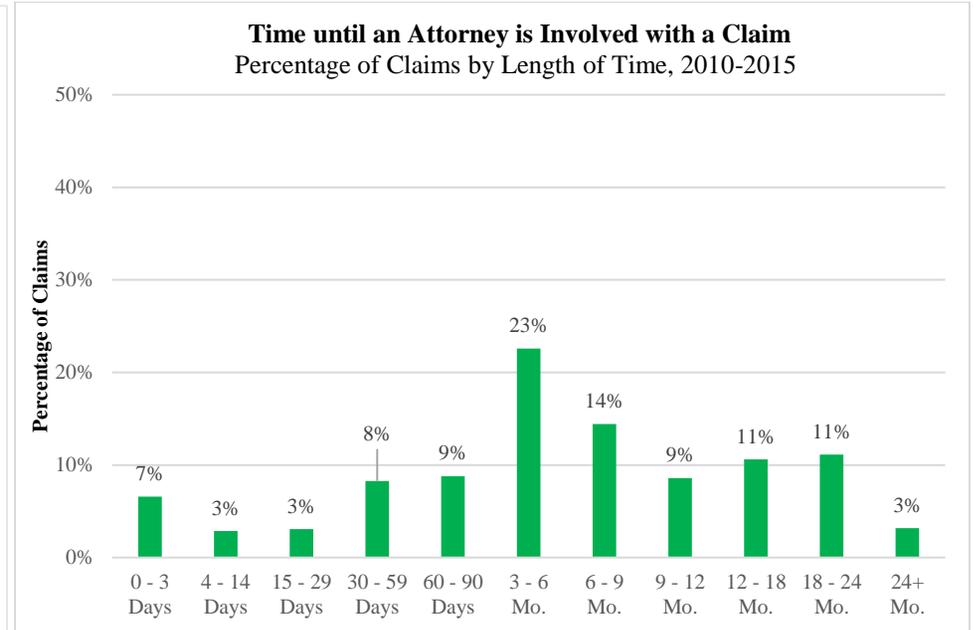
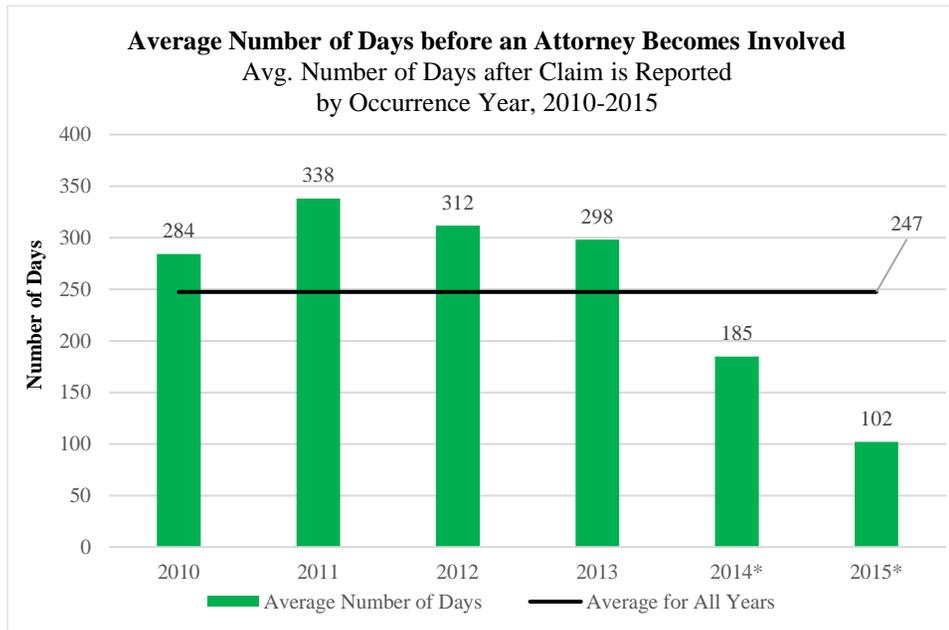
Statewide: Occurrence Years 2010-2013* as of March 31, 2016

Type of Claim	Avg. Number of Days until First Close	Avg. Number of Days until Final Close	Avg. Payment through Date Claim First Closed			Avg. Payment through Final Close		
			Loss Payment	Loss Expense Payment	Loss and Loss Expense Payments	Loss Payment	Loss Expense Payment	Loss and Loss Expense Payments
Known Lawsuits	96	697	\$ 5,768	\$ 930	\$ 6,699	\$ 29,920	\$ 4,244	\$ 34,164
Attorney, Unknown or No Lawsuits	55	625	\$ 4,971	\$ 392	\$ 5,363	\$ 32,504	\$ 5,391	\$ 37,895
No Attorney or PA Involved	39	94	\$ 4,622	\$ 113	\$ 4,734	\$ 7,262	\$ 193	\$ 7,455
All Closed Claims	39	105	\$ 4,635	\$ 123	\$ 4,757	\$ 7,441	\$ 306	\$ 7,747

*Data for 2014 and 2015 was excluded because the data for these years is immature and does not yet include claims that take longer to settle. Data includes claims reported through March 31, 2016. In some cases, companies included claims reported through the date they submitted the data to TDI. In some cases, claims status is as of the date the company submitted data to TDI.

HOUSE INSURANCE COMMITTEE INTERIM CHARGE
Residential Property Hail Litigation Data Call (Section I)

H.1. On average, insurers are notified of attorney involvement about eight months after the claim is reported to the insurer. The data appears to show a downward trend in the number of days before insurers are notified an attorney is involved with a claim. However, the last two years of the data only include claims that were reported by March 31, 2016, and cases where insurers were notified an attorney was involved by that date. The averages for these years may change as the data matures. The data also shows that, for most claims, attorneys are known to be involved after six months or longer. For 7 percent of the claims, the insurer is notified of attorney involvement within a few days after the claim is reported to the insurer.



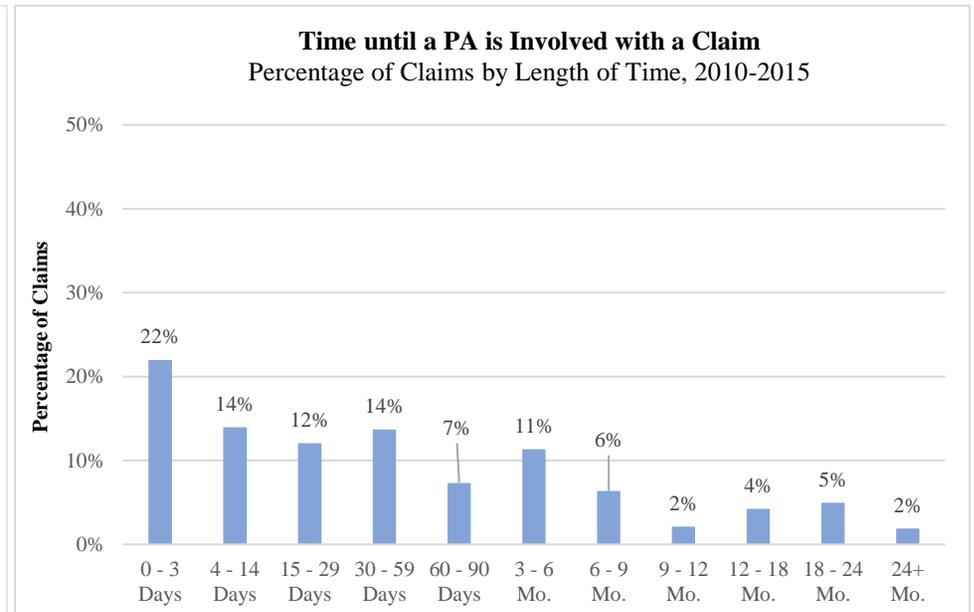
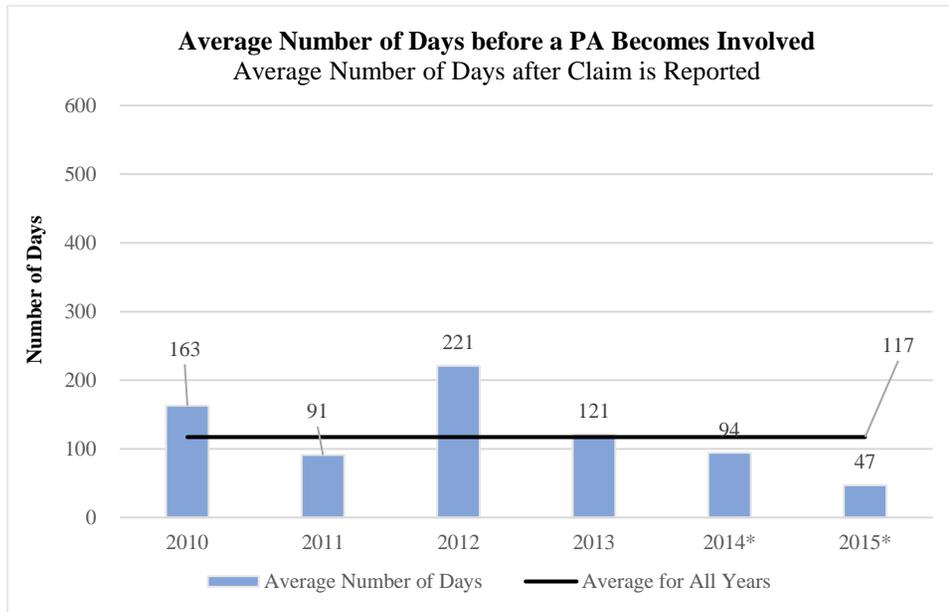
The percentages in the above table are a percentage of claims involving attorneys where insurers provided sufficient information to determine the date an attorney became involved. For about one-quarter of the claims involving attorneys, TDI did not have sufficient information to determine this date.

In addition, there are few claims in 2010-2011 involving attorneys, which can increase the variability in the averages for those years.

*Data for these years is immature. These averages will change as claims occurring in these years that take more time to be reported are settled by insurers. Data includes claims reported through March 31, 2016. In some cases, companies included claims reported through the date they submitted data to TDI.

HOUSE INSURANCE COMMITTEE INTERIM CHARGE
Residential Property Hail Litigation Data Call (Section I)

H.2. On average, insurers are notified of PA involvement with a claim about four months after the claim is reported to the insurer. The data appears to show a downward trend in the number of days before insurers are notified a PA is involved with a claim. However, the last two years of the data only include claims that were reported by March 31, 2016, and cases where insurers were notified a PA was involved by that date. The averages for these years may change as the data matures. The data also shows that, for most claims, PAs are known to be involved after one month or longer. For 22 percent of the claims, a PA is involved within a few days after the claim is reported to the insurer.



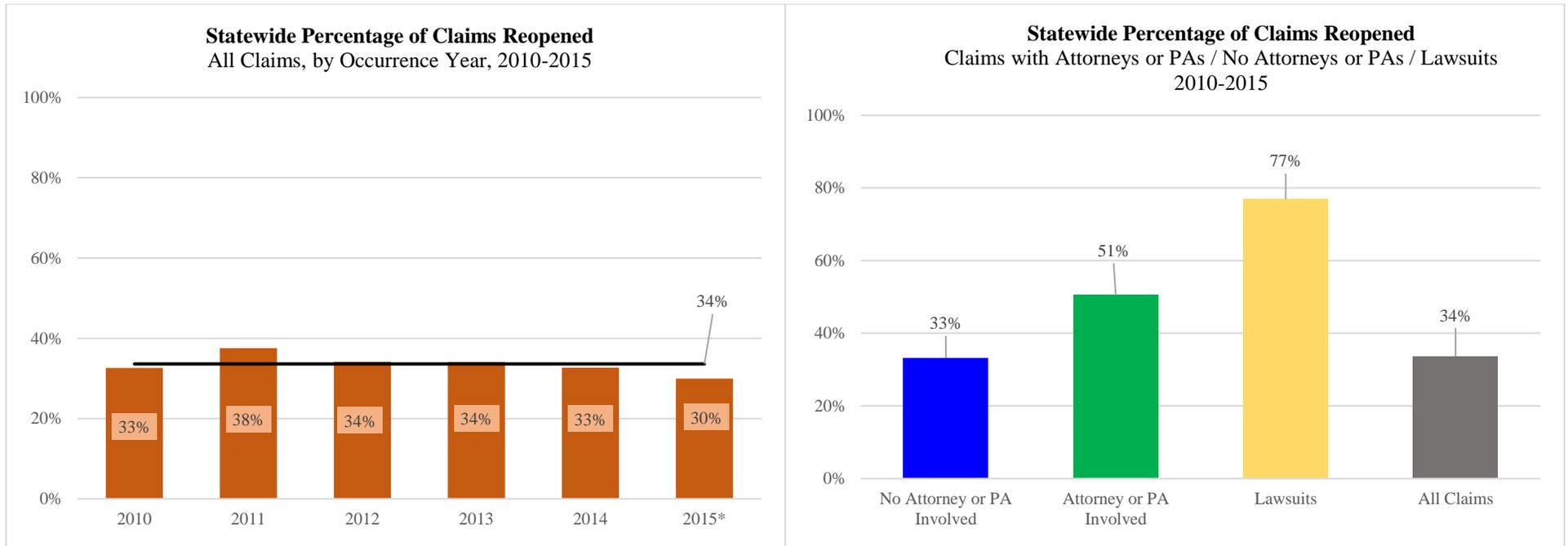
The percentages in the above table are percentages of claims involving PAs where insurers provided the date the PA became involved with the claim. For about one-quarter of the claims involving PAs, TDI did not have this date.

This data is based on a relatively small sample, about 400 claims, which can cause variability in the averages. In addition, there are few claims in 2010-2011 involving PAs which can increase the variability in the averages for those years.

*Data for these years is immature. These averages will change as claims occurring in these years that take more time to be reported are settled by insurers. Data includes claims reported through March 31, 2016. In some cases, companies included claims reported through the date they submitted data to TDI.

HOUSE INSURANCE COMMITTEE INTERIM CHARGE
Residential Property Hail Litigation Data Call (Section I)

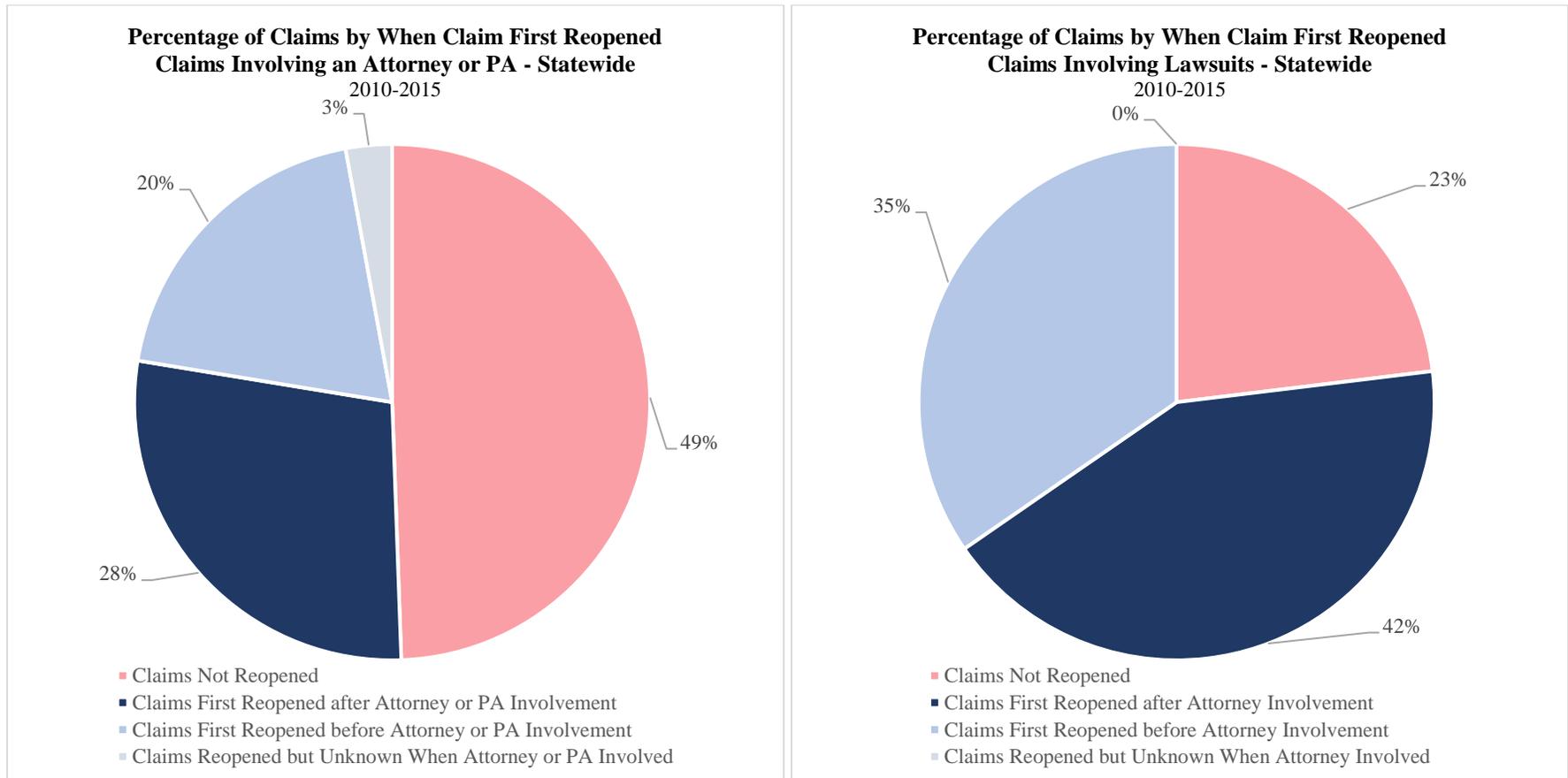
I.1. The data does not show any trends in the percentage of claims that are reopened. Although there appears to be a slight downward trend in the percentage of claims reopened, this could be due to the fact that data for 2015 is not as mature as data for earlier years. The data also shows that the percentage of claims reopened varies depending on whether there is an attorney/PA or a lawsuit. About half of claims involving attorneys or PAs were reopened, and about three-fourths of claims involving lawsuits were reopened. The data does not indicate the reasons the insurer reopened the claim.



*Data for this year is immature. This average may change as claims occurring in this year that take more time to be reported are settled by insurers. Data includes claims reported through March 31, 2016.

HOUSE INSURANCE COMMITTEE INTERIM CHARGE
Residential Property Hail Litigation Data Call (Section I)

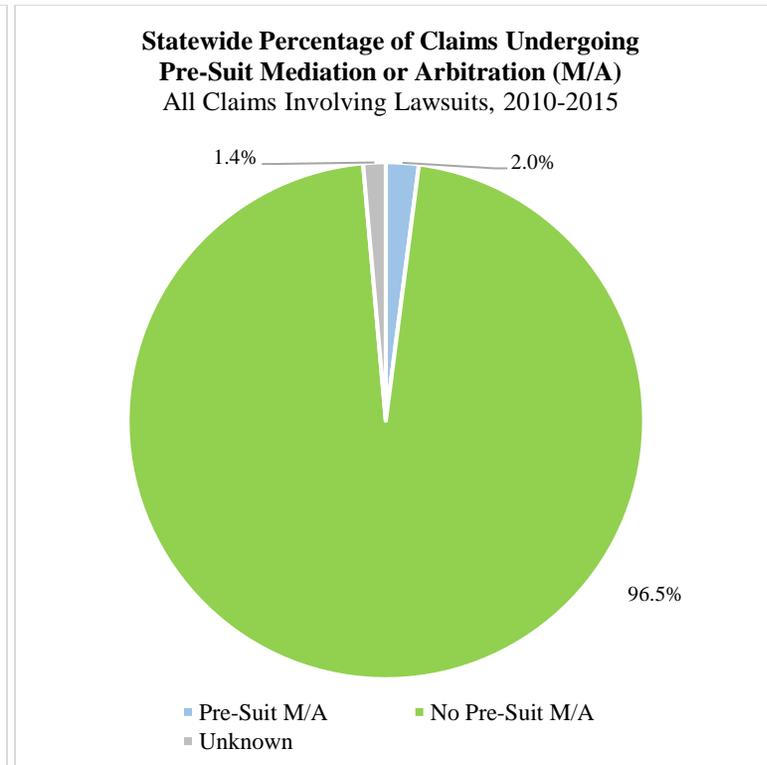
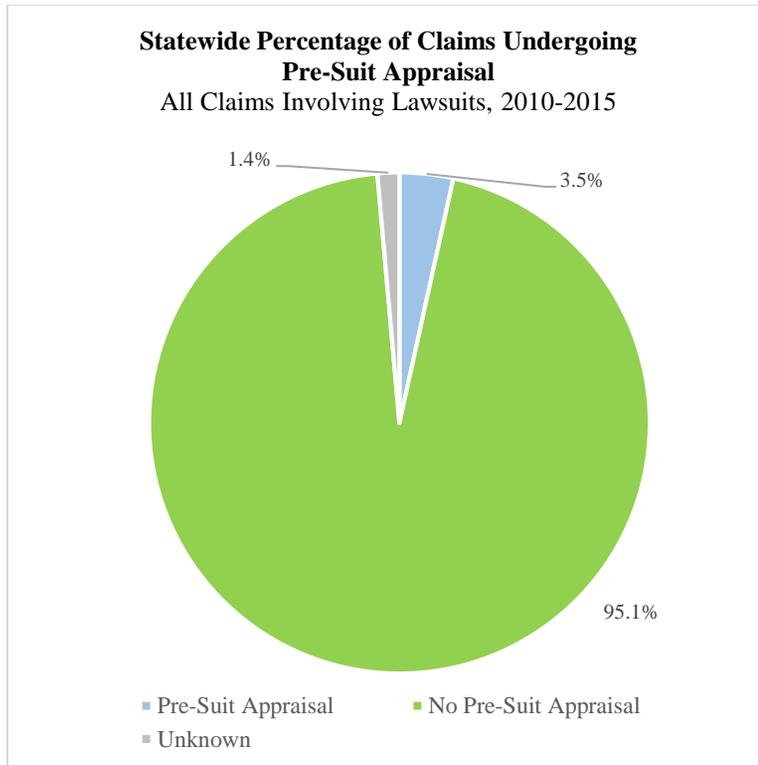
I.2. For claims involving attorneys, TDI examined what proportion of claims were first reopened after an attorney or PA became involved with the claim.



The data indicates that, for claims involving attorneys or PAs, about half of the claims were not reopened. Twenty-eight percent were first reopened after an attorney or PA became involved, and 20 percent were first reopened before an attorney or PA became involved. For claims involving lawsuits, 23 percent of claims were not reopened, 42 percent of claims were first reopened after an attorney became involved, and 35 percent were first reopened before an attorney became involved.

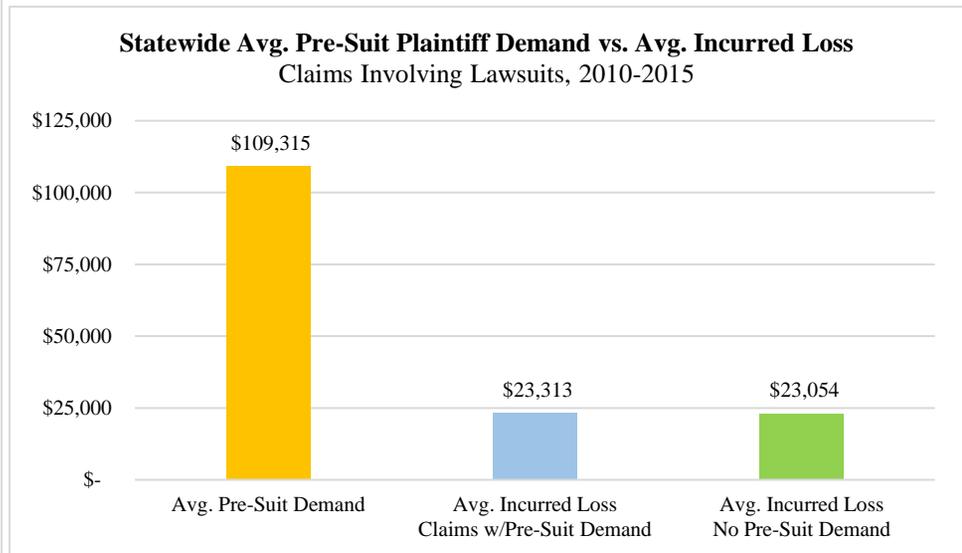
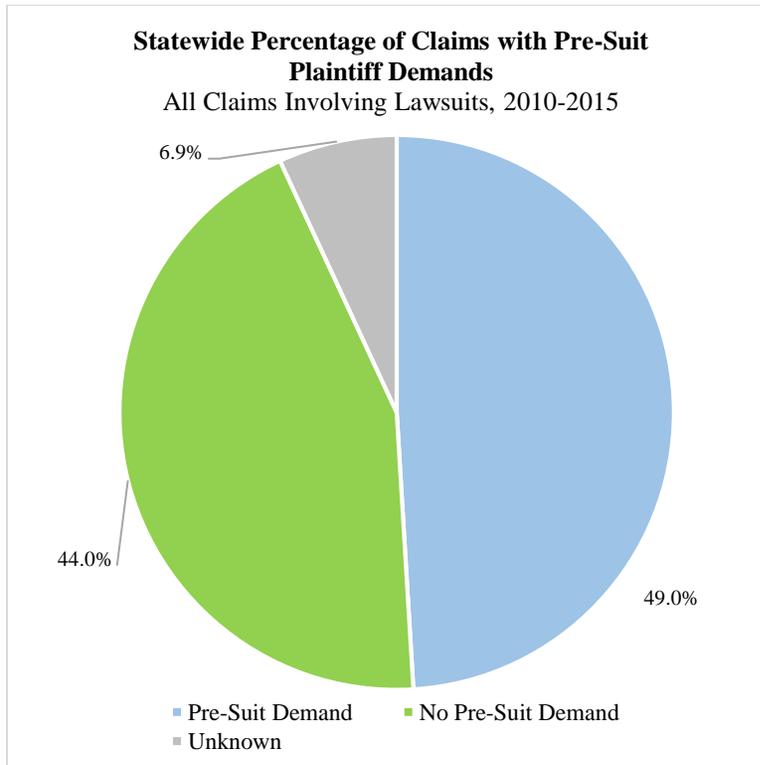
HOUSE INSURANCE COMMITTEE INTERIM CHARGE
Residential Property Hail Litigation Data Call (Section I)

J.1. TDI reviewed data on the efforts of policyholders and insurers to settle claims before suit. The data indicates that pre-suit appraisal was used by insurers and policyholders in 3.5 percent of claims involving lawsuits. In addition, 2 percent of claims involving lawsuits involved pre-suit mediation or arbitration.



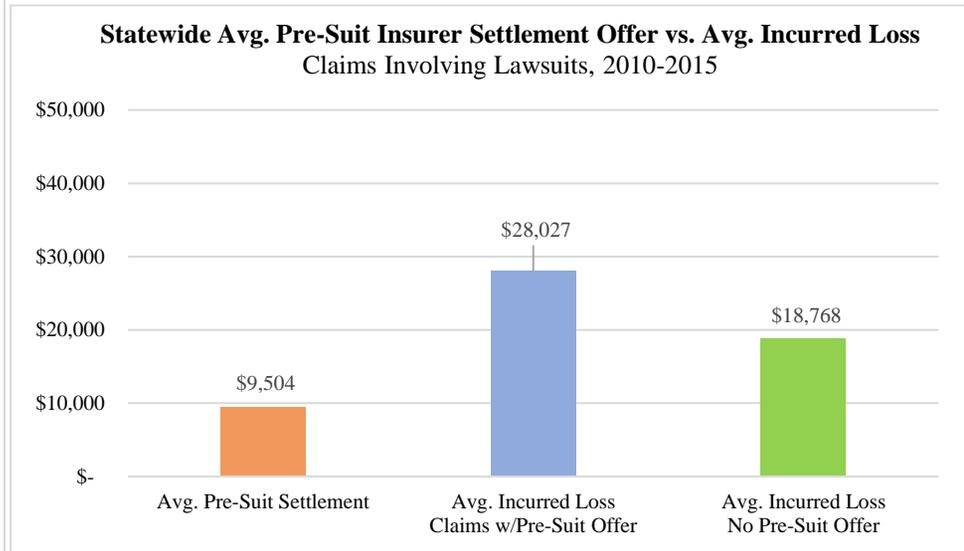
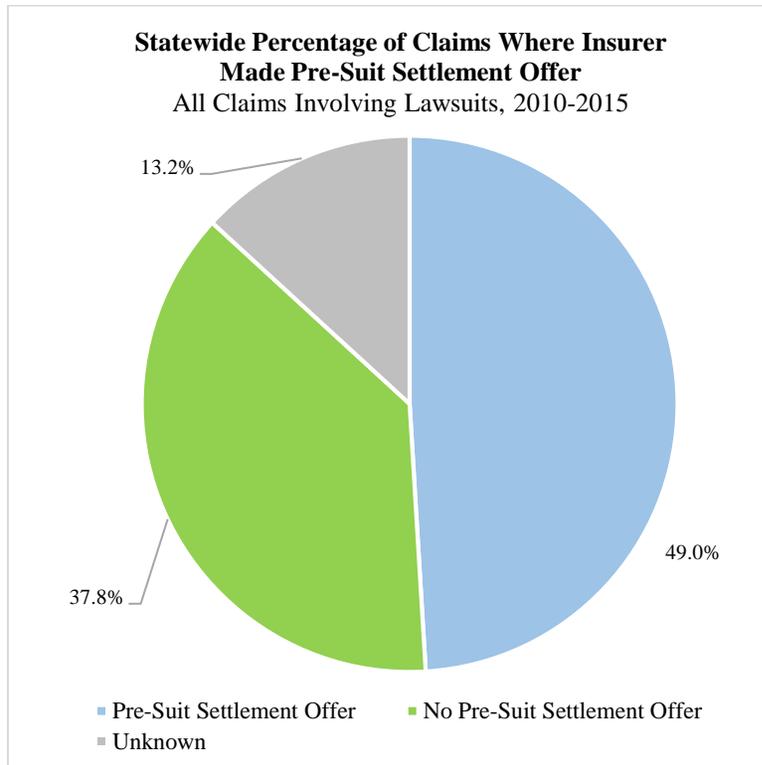
HOUSE INSURANCE COMMITTEE INTERIM CHARGE
Residential Property Hail Litigation Data Call (Section I)

J.2. The data indicates that about 50 percent of lawsuits involve a pre-suit demand from the plaintiff. For claims with pre-suit plaintiff demands, the average highest plaintiff demand before suit was about \$109,000, compared to an average incurred loss for these claims of about \$23,000.



HOUSE INSURANCE COMMITTEE INTERIM CHARGE
Residential Property Hail Litigation Data Call (Section I)

J.3. The data indicates that about 50 percent of lawsuits involve a pre-suit settlement offer from the insurer. For claims with pre-suit settlement offer from the insurer, the average highest settlement offer before suit was about \$9,500, compared to an average incurred loss for these claims of about \$28,000.



Claims with settlement offers are not the exact same group of claims with pre-suit plaintiff demands. Some claims have both pre-suit demands and pre-suit settlement offers (24 percent), other claims have pre-suit demands but no pre-suit settlement offers (23 percent), other claims have pre-suit settlement offers but no pre-suit demands (18 percent), and other claims will have neither a pre-suit demand nor a pre-suit settlement offer (19 percent)⁴.

⁴ The remaining claims with lawsuits, about 16 percent, are in the "unknown" category.

PART II

TDI RESIDENTIAL PROPERTY HAIL LITIGATION DATA CALL

SECTION II DATA – FINAL RESULTS

FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section II)

Introduction

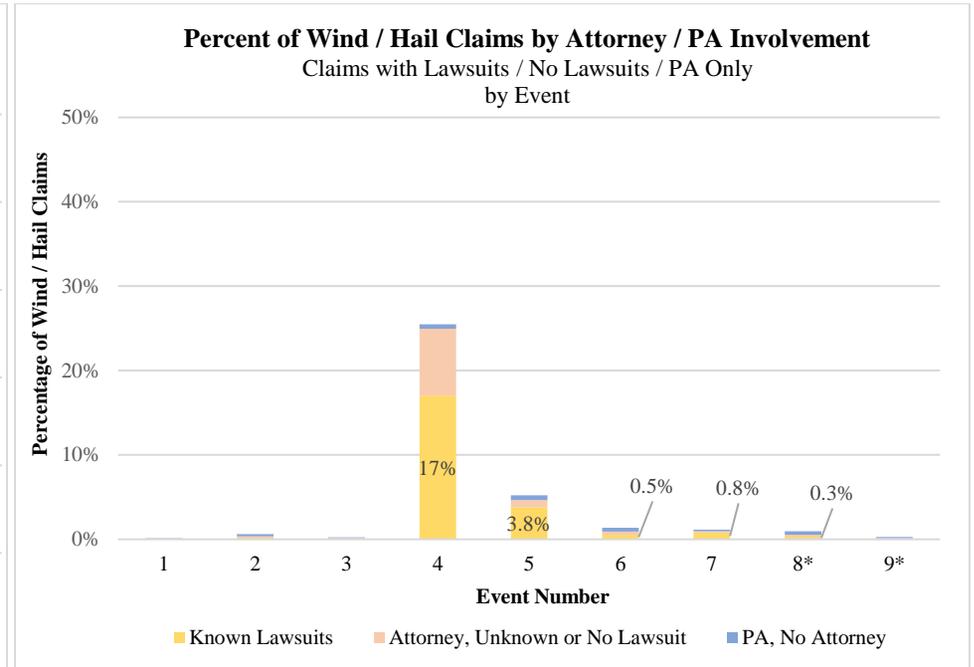
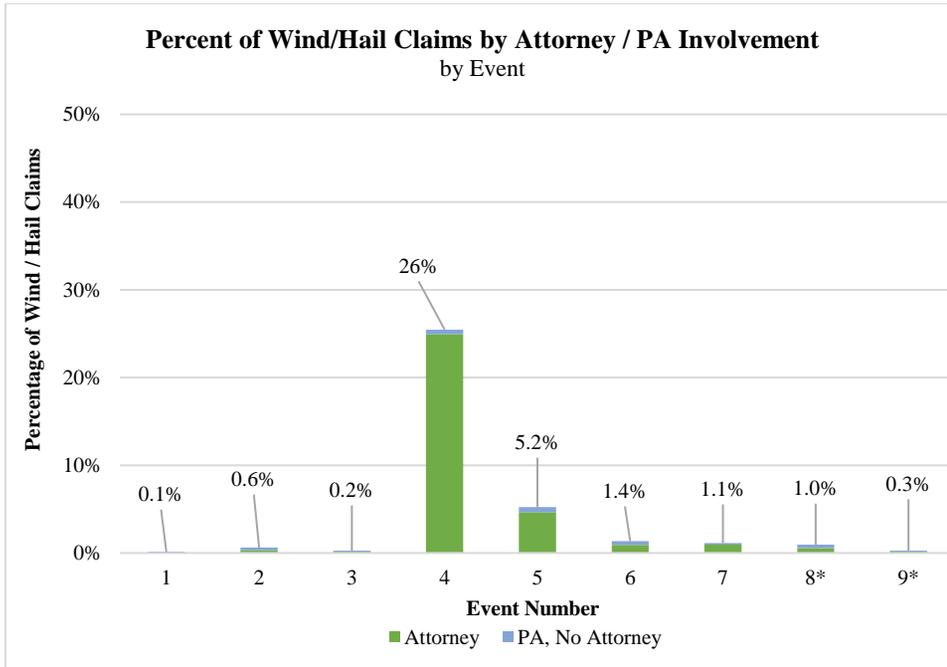
In this part of the presentation, TDI provides results of data from Section II of its data call. Section II consisted of a 100 percent sample of claims from nine events that TDI specified by occurrence date and county (or ZIP code). Only the top 15 companies with claims for these events were required to report Section II data. Reporting was optional for other insurers, including farm mutual insurers. One farm mutual insurer volunteered to report data under this section and TDI included their data in the results below.

TDI selected these nine events based on average claim size, number of claims, and geographic diversity. For some events, TDI only required companies to report data for counties with the most claims. The events are as follows:

Event Number	Year of Event	Dates of Event	Region	Number of Claims Reported (Data Call)	Average Incurred Loss (Data Call)	Average Paid ALAE (Data Call)	Average Loss and ALAE (Data Call)
1	2009	Jul. 8 – 9	North Texas	2,201	\$ 9,277	\$ 103	\$ 9,381
2	2010	Jul. 23 – 24	Houston Area	2,106	\$ 7,457	\$ 208	\$ 7,665
3	2011	Jun. 20 – 22	Dallas-Fort Worth Area	12,676	\$ 13,489	\$ 454	\$ 13,943
4	2012	Mar. 28 – Apr. 5	Hidalgo County	12,677	\$ 19,402	\$ 3,304	\$ 22,705
5	2013	May 27 – 30	Amarillo Area	17,586	\$ 14,580	\$ 478	\$ 15,058
6	2014	Apr. 2 – 5	Collin County	17,439	\$ 10,804	\$ 344	\$ 11,148
7	2014	Jun. 5 – 8	Panhandle / West Texas	4,121	\$ 11,671	\$ 265	\$ 11,936
8	2015	Apr. 22 – Apr. 28	Bexar County	13,225	\$ 6,451	\$ 250	\$ 6,701
9	2015	Jun. 12 – 13	North Texas / West Texas	1,442	\$ 11,357	\$ 187	\$ 11,544

FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section II)

A. The data indicates that events 4 and 5 show a higher percentage of claims with attorney or PA involvement and a higher percentage of claims with lawsuits. Events 6 through 9 show rates of attorney or PA involvement and lawsuit rates that are lower than the rates for events 4 and 5.

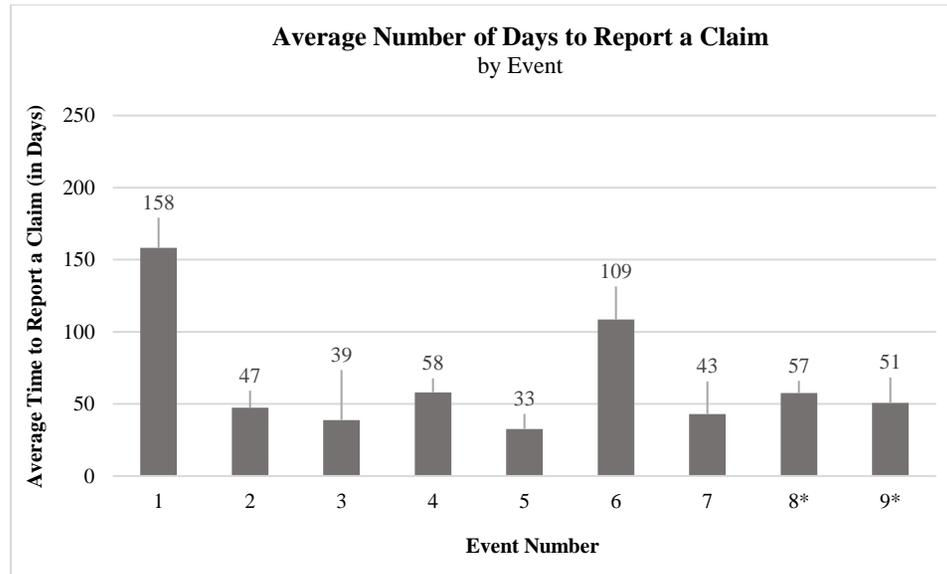


Event Number	Year of Event	Dates of Event	Region	Event Number	Year of Event	Dates of Event	Region
1	2009	Jul. 8 – 9	North Texas	6	2014	Apr. 2 – 5	Collin County
2	2010	Jul. 23 – 24	Houston Area	7	2014	Jun. 5 – 8	Panhandle / West Texas
3	2011	Jun. 20 – 22	Dallas-Fort Worth Area	8	2015	Apr. 22 – Apr. 28	Bexar County
4	2012	Mar. 28 – Apr. 5	Hidalgo County	9	2015	Jun. 12 – 13	North Texas / West Texas
5	2013	May 27 – 30	Amarillo Area				

*Data for these events is immature. These ratios may change as the data “matures” and additional claims for these events are reported and settled by insurers. Data includes claims reported through March 31, 2016.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section II)

B.1. Events 1 and 6 have the longest average time before the claim is reported to the insurer, even though they have relatively low rates of attorney or PA involvement.

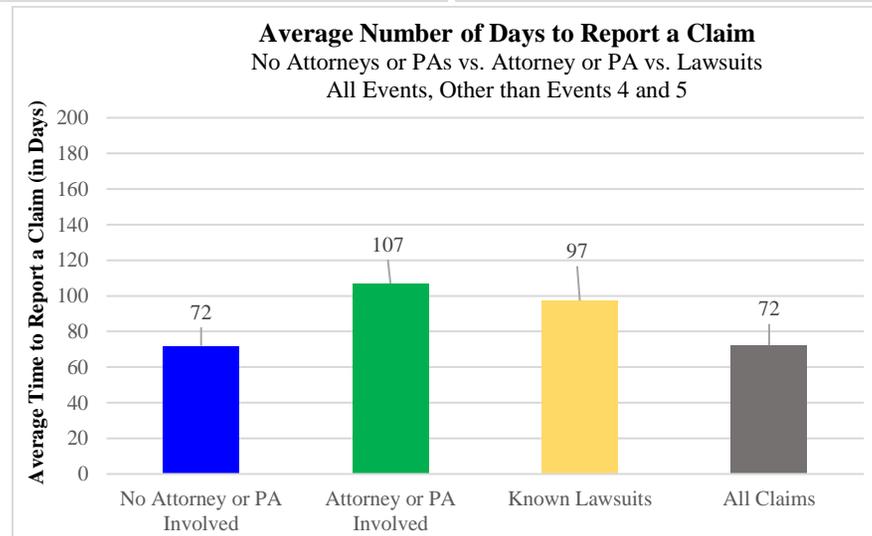
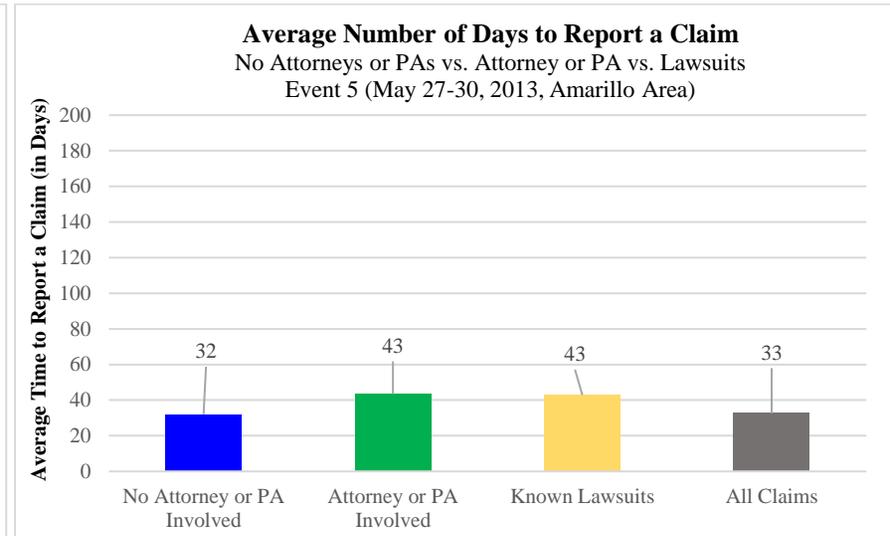
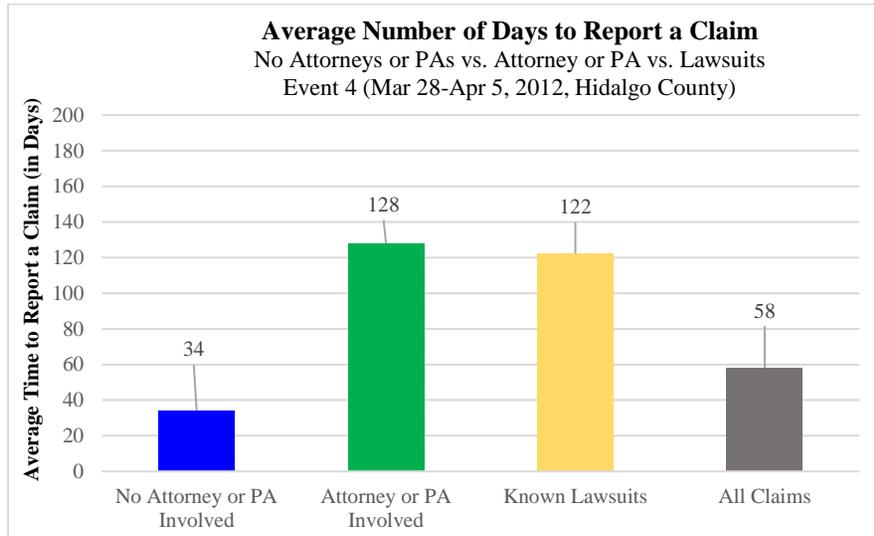


Event Number	Year of Event	Dates of Event	Region	Event Number	Year of Event	Dates of Event	Region
1	2009	Jul. 8 – 9	North Texas	6	2014	Apr. 2 – 5	Collin County
2	2010	Jul. 23 – 24	Houston Area	7	2014	Jun. 5 – 8	Panhandle / West Texas
3	2011	Jun. 20 – 22	Dallas-Fort Worth Area	8	2015	Apr. 22 – Apr. 28	Bexar County
4	2012	Mar. 28 – Apr. 5	Hidalgo County	9	2015	Jun. 12 – 13	North Texas / West Texas
5	2013	May 27 – 30	Amarillo Area				

*Data for these events is immature. These averages may change as the data “matures” and additional claims occurring for these events are reported and settled by insurers. Data includes claims reported through March 31, 2016.

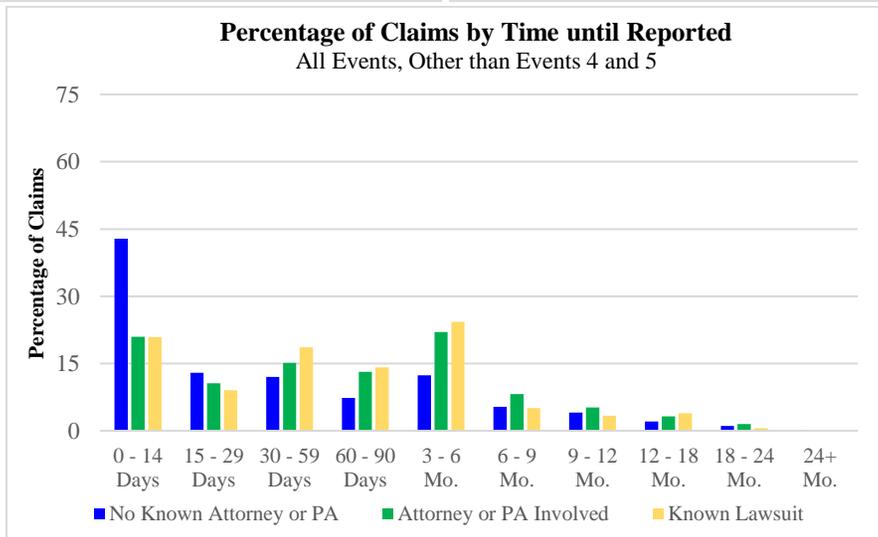
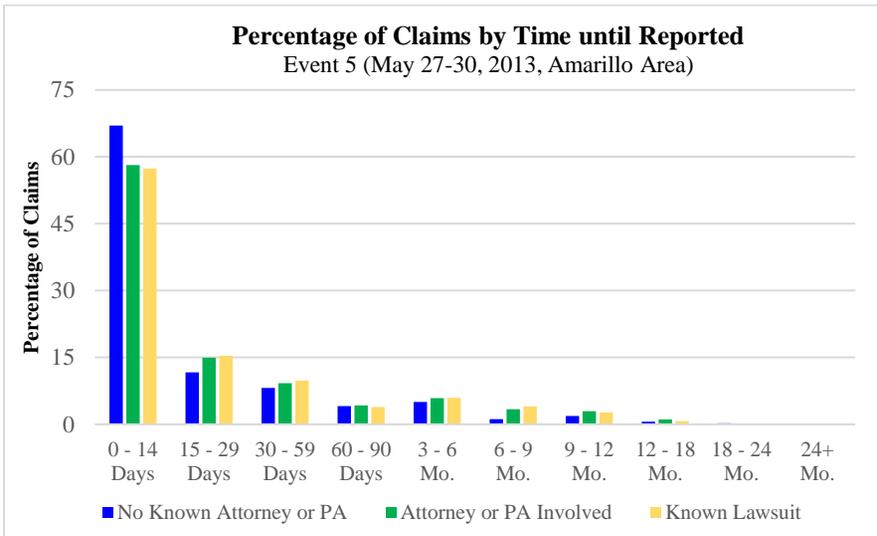
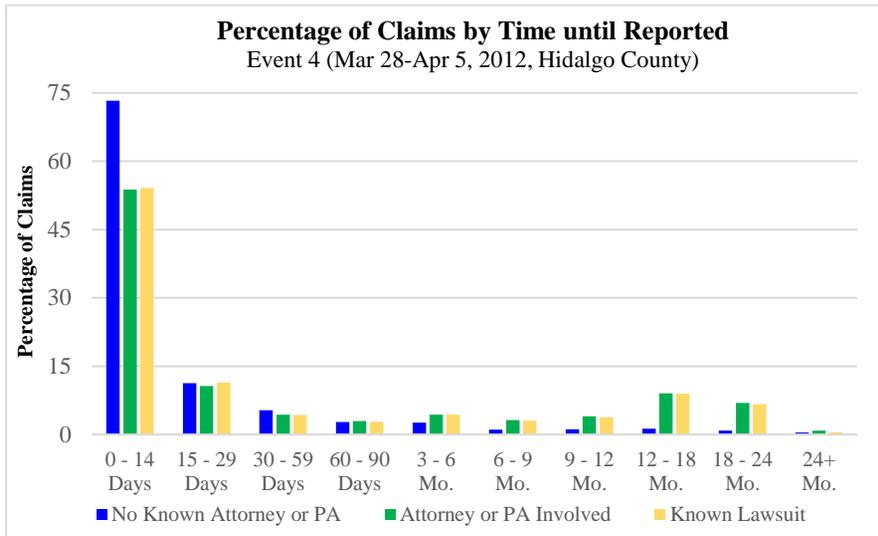
FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section II)

B.2. For event 4, claims with attorneys or PAs representing the claimant, on average, are reported about 90-95 days later than claims without attorneys or PAs. For event 5, the difference is 11 days. For all other events combined, the difference is about 30-40 days.



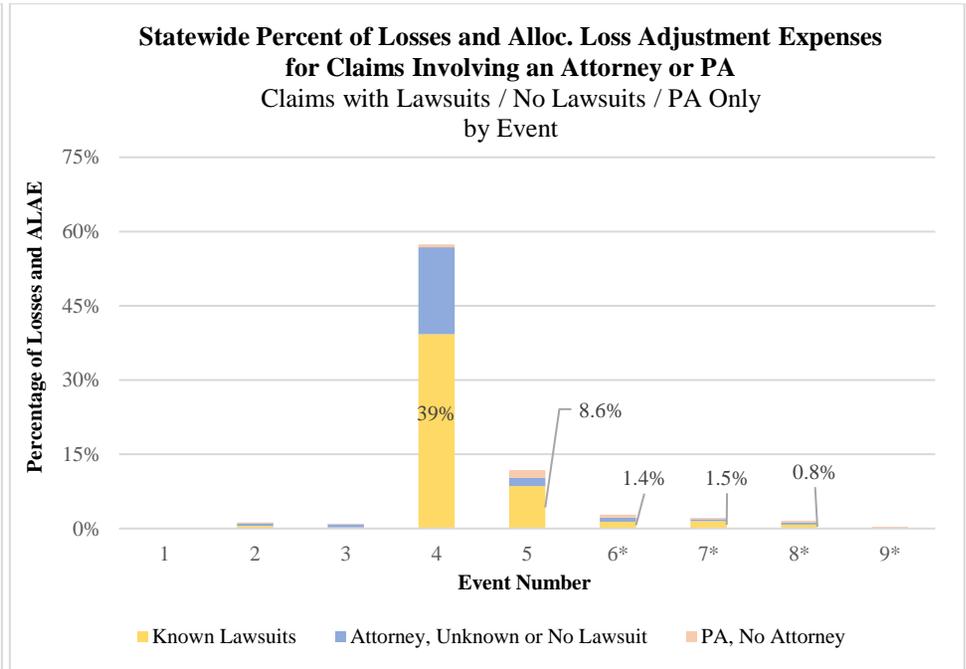
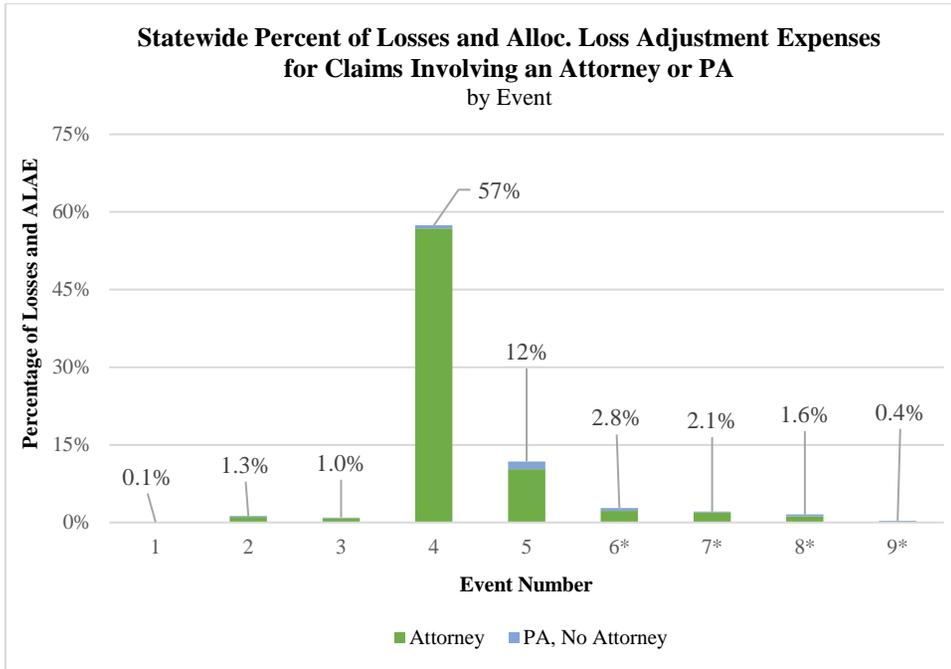
FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section II)

B.3. For event 4, the data shows that 24 percent of claims involving attorneys, PAs, or lawsuits were reported more than six months after the event occurred, compared to 7.5 percent for event 5, and 18 percent for all other events combined.



FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section II)

C. The data also shows that events 4 and 5 have higher percentages of losses and allocated loss adjustment expenses attributable to claims involving attorneys, lawsuits, or PAs when compared to other events.

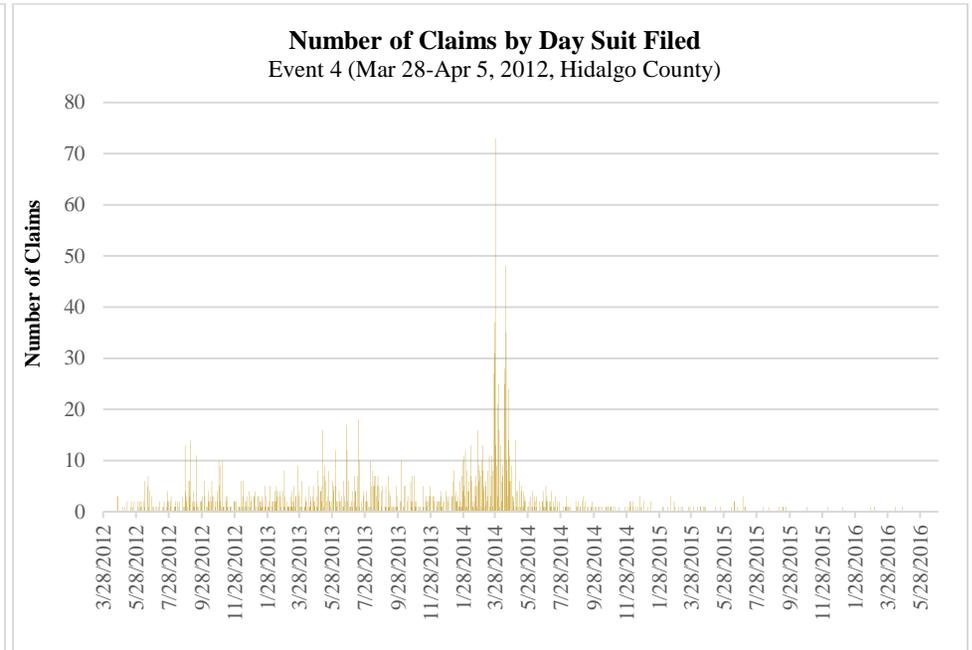
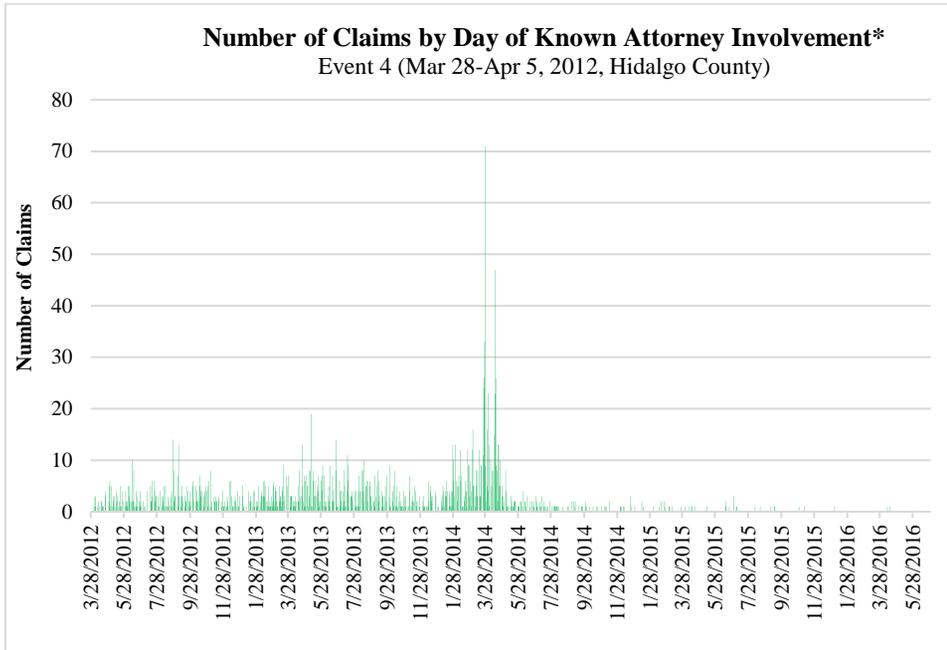


Event Number	Year of Event	Dates of Event	Region	Event Number	Year of Event	Dates of Event	Region
1	2009	Jul. 8 – 9	North Texas	6	2014	Apr. 2 – 5	Collin County
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3	2011	Jun. 20 – 22	Dallas-Fort Worth Area	8	2015	Apr. 22 – Apr. 28	Bexar County
4	2012	Mar. 28 – Apr. 5	Hidalgo County	9	2015	Jun. 12 – 13	North Texas / West Texas
5	2013	May 27 – 30	Amarillo Area				

*Data for these events is immature. These ratios may change as the data “matures” and additional claims occurring from these events are reported and settled by insurers. Loss and loss adjustment expenses are evaluated as of March 31, 2016.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section II)

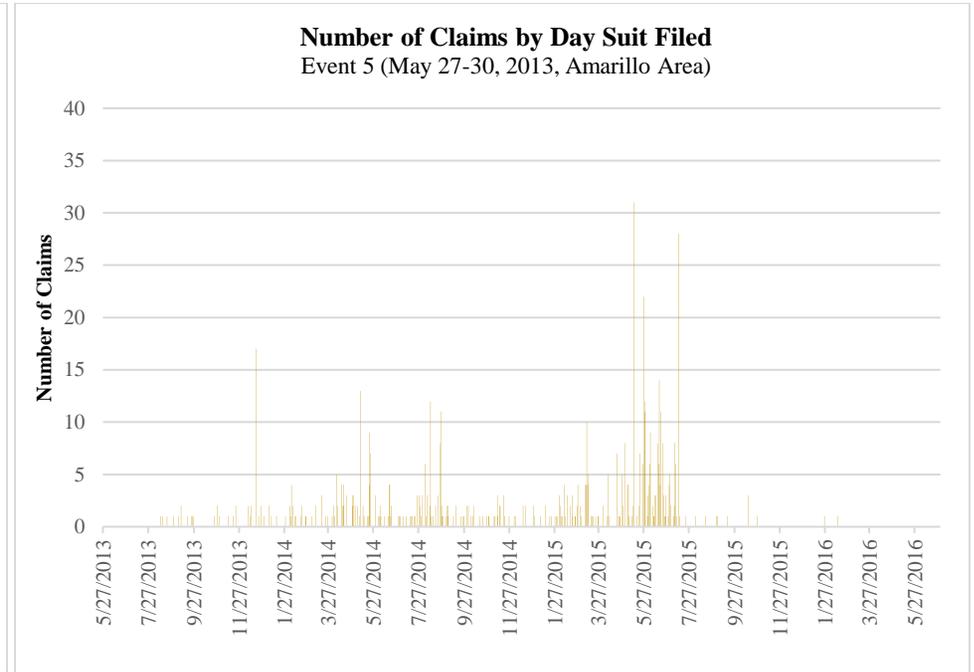
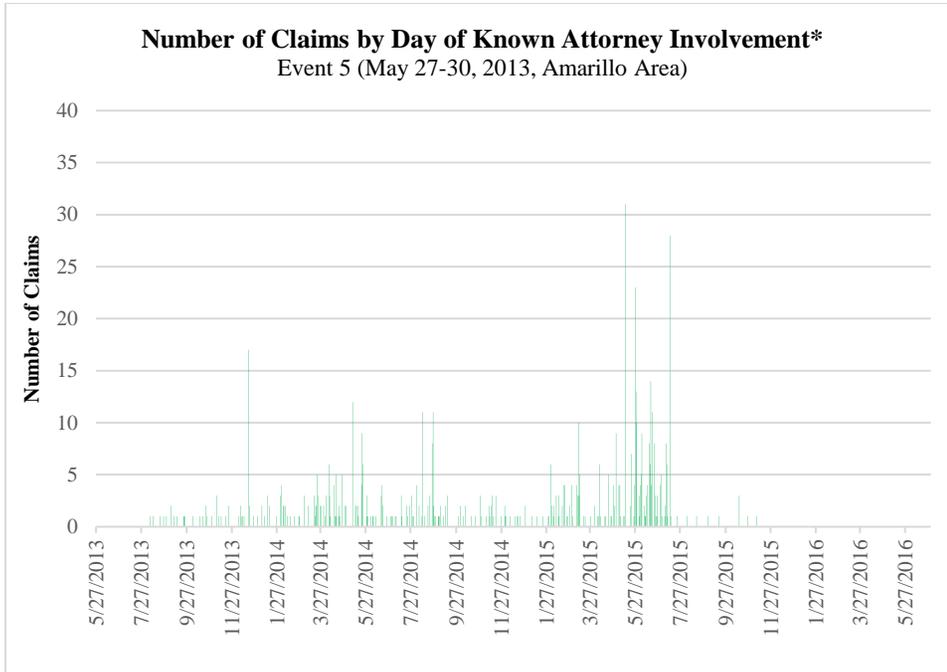
D. The data shows that for events 4 and 5, there were few claims where the attorney is known to be involved in the first 30 days after the event. For both events, the data shows an increase in known attorney representation and suits filed approximately two years after the event. For other events, there were either too few claims with attorney involvement or the events were too recent (2014-2015) to determine whether there was an increase (see Supplemental Exhibit Page 13 for all events).



Event 4 (Mar 28-Apr 5, 2012, Hidalgo County)								
Time after Event When ...	Percentage of Claims by When Attorney Known to be Involved or Suit Filed (Relative to Event Date)							
	Less than 30 Days	30 - 60 Days	60 - 90 Days	3 - 6 Months	6 - 12 Months	12 - 18 Months	18 - 24 Months	More than 24 Months
Attorney Involved	1.2%	2.3%	3.0%	7.9%	15.4%	23.4%	28.6%	18.3%
Suit Filed	0.3%	0.5%	1.9%	5.8%	13.9%	20.3%	31.5%	25.9%

*Date of attorney involvement is the earliest of: (i) date of letter of representation or demand letter; and (ii) date of lawsuit.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section II)

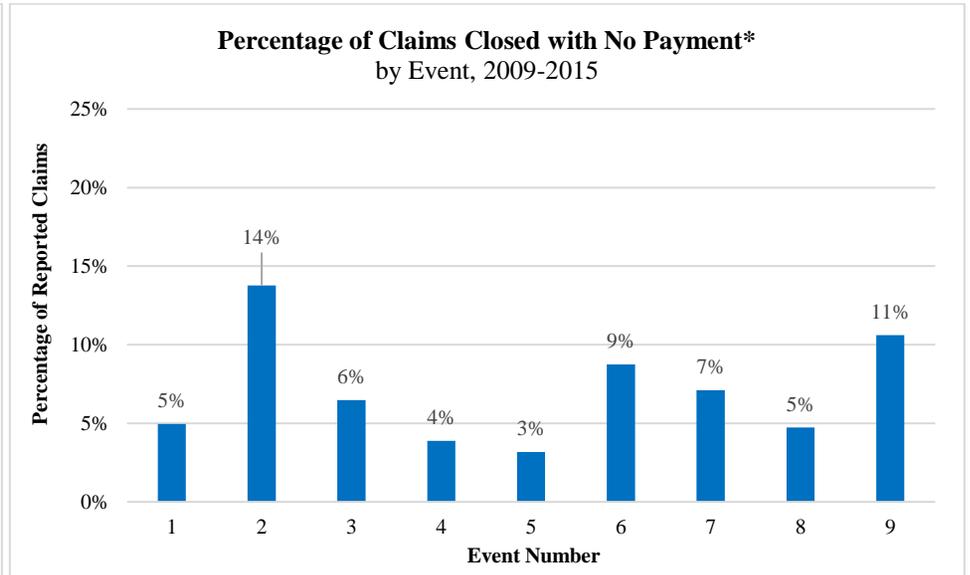
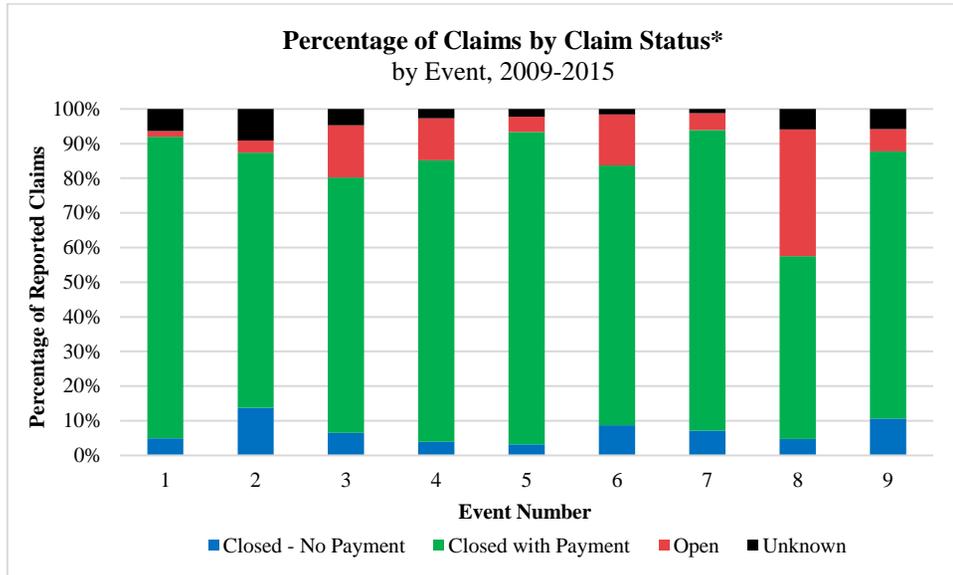


Event 5 (May 27-May 30, 2013, Amarillo Area)								
Time after Event When ...	Percentage of Claims by When Attorney Known to be Involved or Suit Filed (Relative to Event Date)							
	Less than 30 Days	30 - 60 Days	60 - 90 Days	3 - 6 Months	6 - 12 Months	12 - 18 Months	18 - 24 Months	More than 24 Months
Attorney Involved	0.0%	0.0%	0.6%	3.4%	23.1%	17.7%	31.9%	23.3%
Suit Filed	0.0%	0.0%	0.4%	2.4%	19.7%	20.4%	32.8%	24.3%

*Date of known attorney involvement is the earliest of: (i) date of letter of representation or demand letter; and (ii) date of lawsuit.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section II)

E. The data indicates that events 4 and 5, which also have the highest percentages of claims with attorney involvement, have the lowest percentage of claims closed without payment to the policyholder. But events 1 and 8, which have relatively low percentages of claims with attorney involvement, have similar percentages of claims closed without payment.

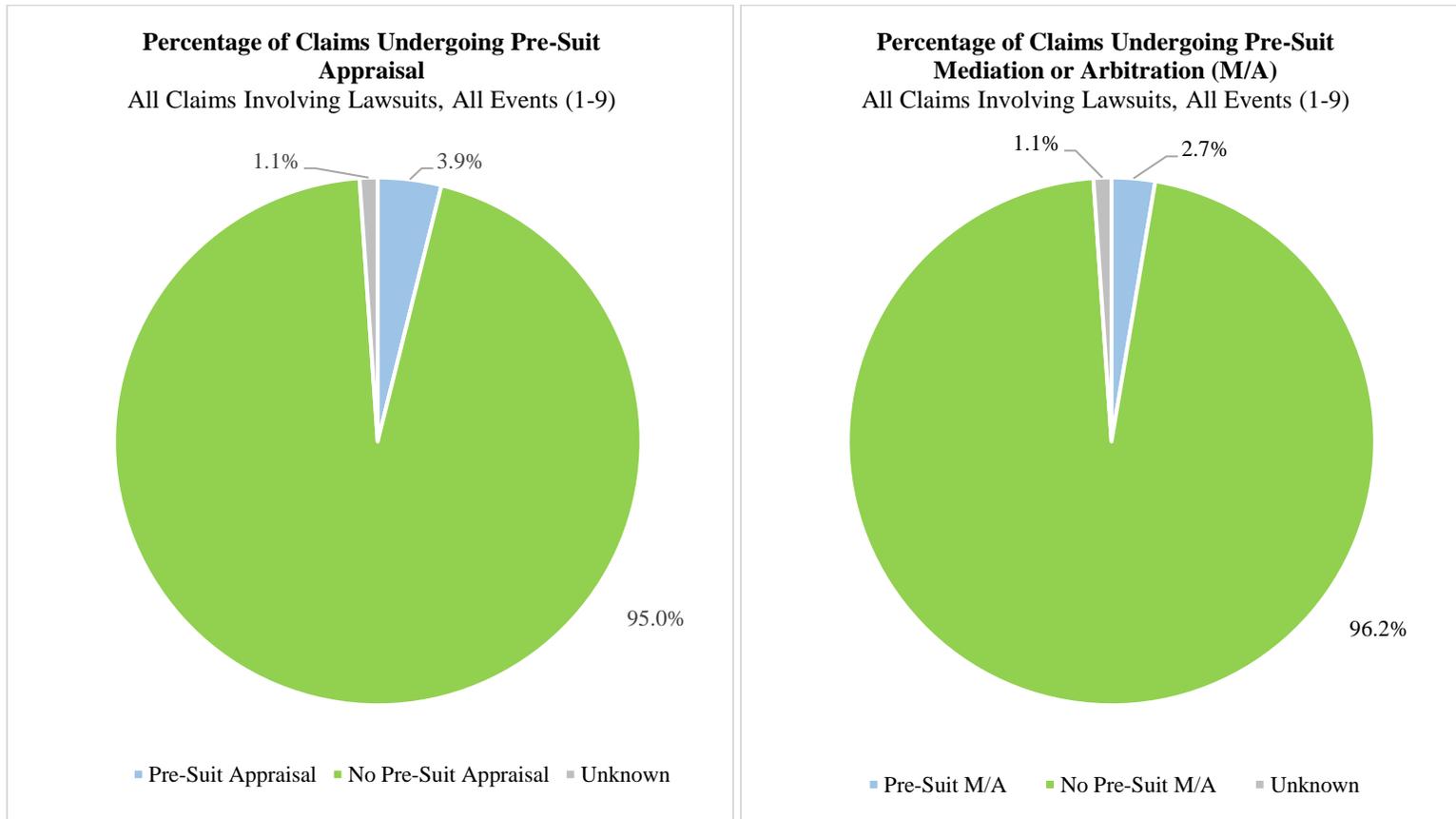


Event Number	Year of Event	Dates of Event	Region	Event Number	Year of Event	Dates of Event	Region
1	2009	Jul. 8 – 9	North Texas	6	2014	Apr. 2 – 5	Collin County
2	2010	Jul. 23 – 24	Houston Area	7	2014	Jun. 5 – 8	Panhandle / West Texas
3	2011	Jun. 20 – 22	Dallas-Fort Worth Area	8	2015	Apr. 22 – Apr. 28	Bexar County
4	2012	Mar. 28 – Apr. 5	Hidalgo County	9	2015	Jun. 12 – 13	North Texas / West Texas
5	2013	May 27 – 30	Amarillo Area				

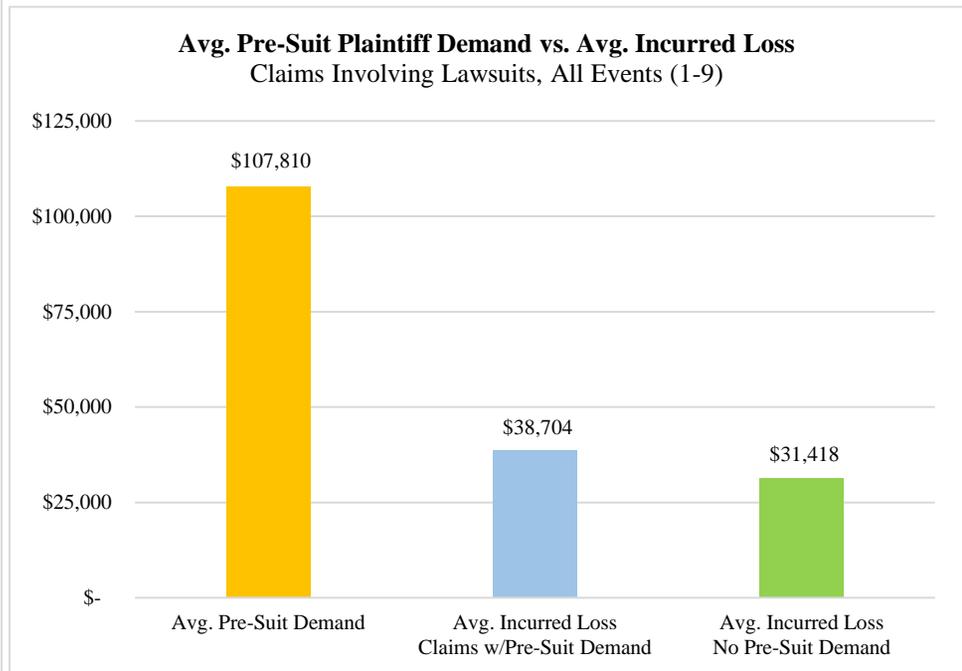
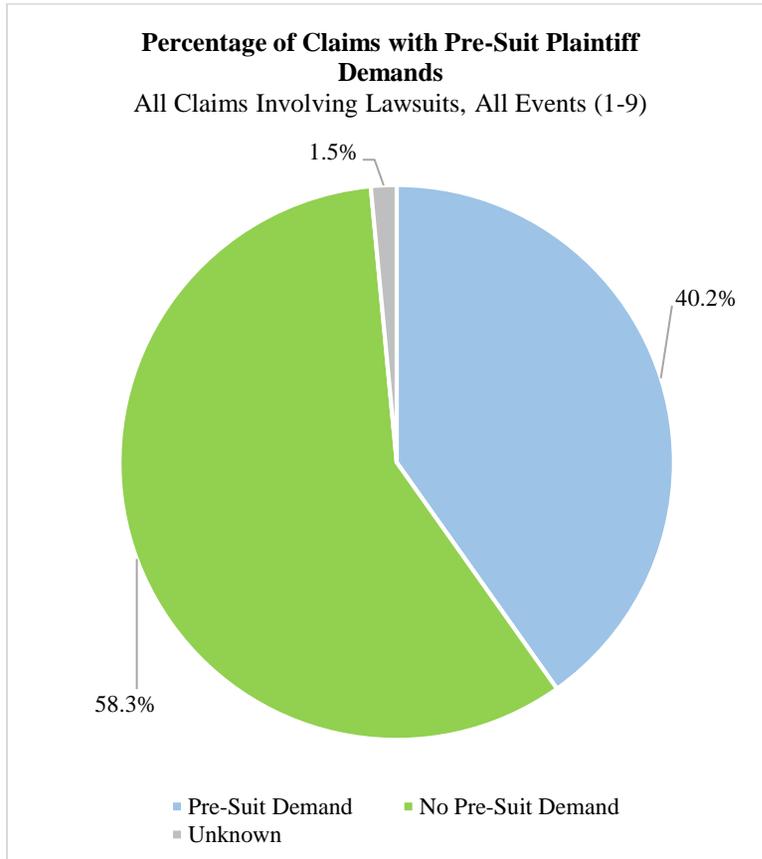
*Estimated claim status as of March 31, 2016. In some cases, claims status is as of the date the company submitted data to TDI.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section II)

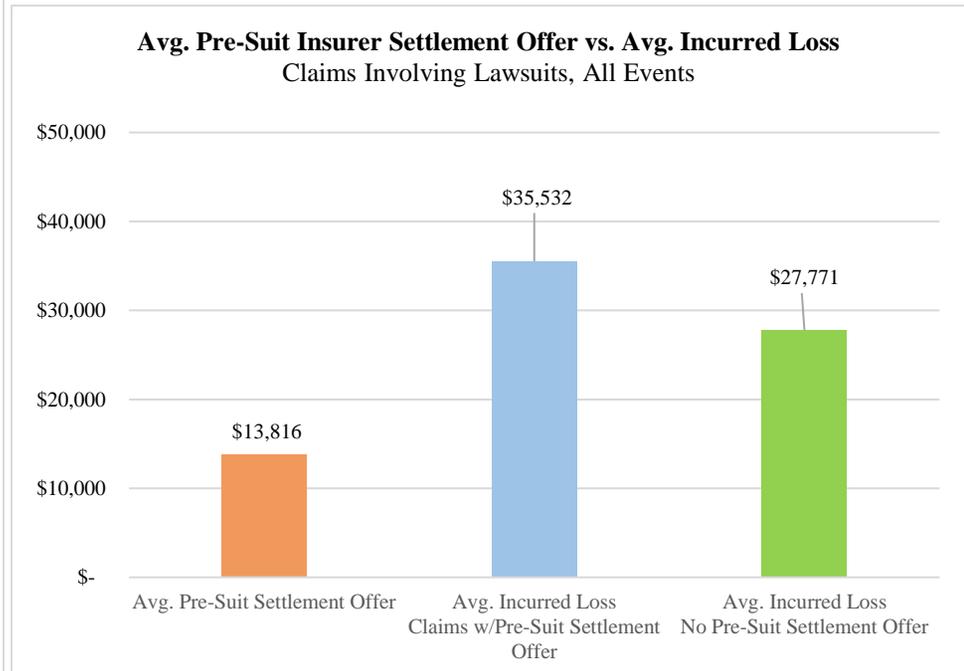
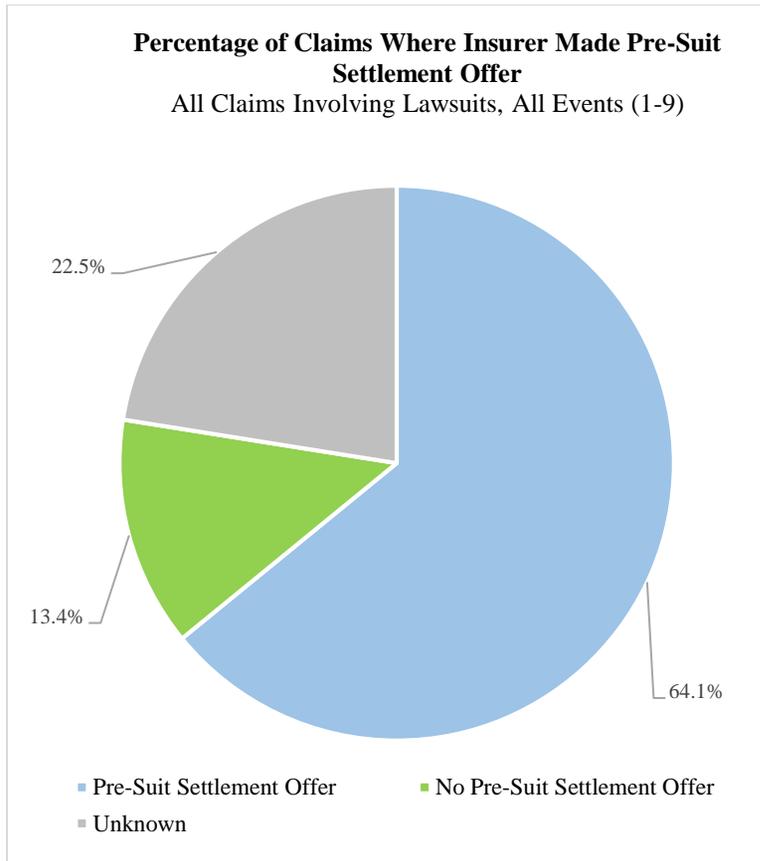
F. Section II data on pre-suit settlement efforts shows a pattern similar to the Section I data: (1) a relatively low percentage of claims involve pre-suit appraisal, mediation, or arbitration; and (2) a notable difference between the highest pre-suit plaintiff demand and the highest pre-suit settlement offer.



FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section II)



FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section II)



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Residential Property Hail Litigation Data Call (Section II)

G. Claims Bundling Analysis

TDI reviewed Section II data to determine the extent to which there was claims "bundling." Bundling consists of a demand from an attorney representing multiple policyholders to settle claims on behalf of all policyholders as a bundle rather than individually. TDI looked for bundles as either: (1) demands or letters of representation sent from the same law firm to the same insurer on the same day (LOR/demand letter method); or (2) lawsuits filed by the same law firm against the same insurer on the same day (suit date method). While there is no clear definition of how many demands (or suits) sent by the same law firm to the same insurer on the same day make a bundle, for the purposes of its analysis, TDI used a threshold of five claims. There was no way to determine from the data whether a bundle involves a single demand from the plaintiff's attorney to settle all claims as a whole rather than individually.

- TDI had the date of the demand letter or letter of representation in 43 percent of claims involving attorneys. For 57 percent of the claims involving attorneys, TDI had no means of identifying bundles.
- Using both methods, TDI identified bundles in events 4 (Mar. 28 - Apr. 5, 2012, Hidalgo County hail storm) and 5 (May 27-30, 2013, Amarillo area hail storm). Overall, TDI identified 22 bundles consisting of 147 claims using the LOR/demand letter method, and 68 bundles consisting of 636 claims using the suit date method.

Event Number	Number of Bundles		Avg. Bundle Size		Median Bundle Size		Largest Bundle Size	
	LOR Method	Suit Date Method	LOR Method	Suit Date Method	LOR Method	Suit Date Method	LOR Method	Suit Date Method
4	15	46	6.6	8.5	6.0	7.0	14	38
5	6	22	8.0	11.1	8.5	9.0	12	30
Total	21	68	7.0	9.4	6.0	8.0	14	38

- Using the LOR method, bundled claims accounted for 8 percent of claims with an LOR or demand date. Using the suit date method, bundled claims accounted for 21 percent of claims involving lawsuits. About 50 percent of the bundles using the suit date method had suit filed dates about 2 years (23 to 25 months) after the date of the event.
- The average loss for bundled claims is similar to the average loss for unbundled claims involving attorneys or lawsuits.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Residential Property Hail Litigation Data Call (Section II)

Event Number	Average Incurred Loss				Average Incurred Loss and Paid ALAE			
	Claims with LOR Date	Bundled – LOR Method	Claims Involving Lawsuits	Bundled – Suit Date Method	Claims with LOR Date	Bundled – LOR Method	Claims Involving Lawsuits	Bundled – Suit Date Method
4	\$ 40,946	\$ 49,299	\$ 37,912	\$ 42,480	\$ 48,504	\$ 57,200	\$ 52,377	\$ 56,613
5	\$ 34,633	\$ 33,514	\$ 26,902	\$ 20,125	\$ 40,664	\$ 36,218	\$ 33,809	\$ 25,035
Total	\$ 39,956	\$ 44,145	\$ 35,302	\$ 33,904	\$ 47,275	\$ 50,349	\$ 47,975	\$ 51,776

PART III

MARKET TRENDS IN RESIDENTIAL PROPERTY INSURANCE

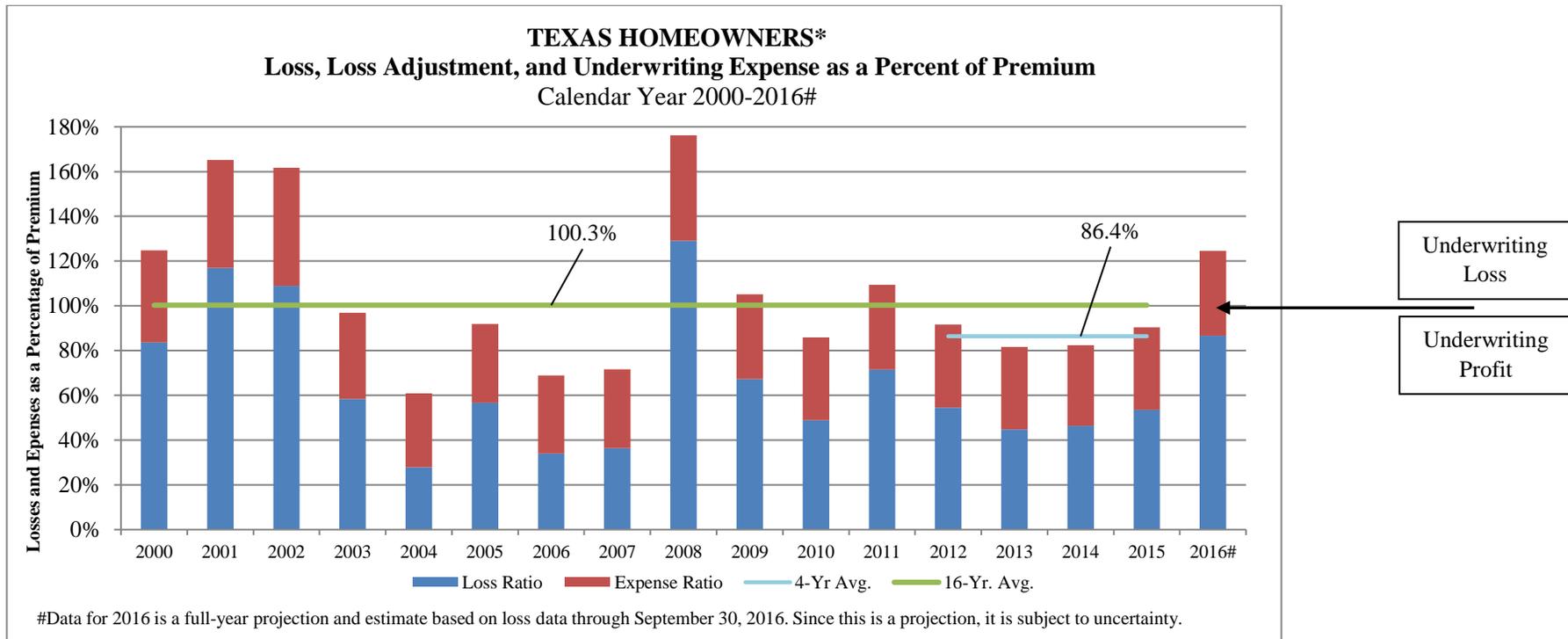
FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

A.1. Insurers have been able to consistently make an underwriting profit for homeowners insurance in 2012-2015. However, because Texas is a state with exposure to both hurricane and severe thunderstorm events, insurers are expected to make an above average underwriting profit in years with no hurricanes or less than average severe thunderstorm events. Similarly, insurers are expected to make a below average underwriting profit (or sustain an underwriting loss) in years with significant hurricanes or greater than average severe thunderstorm events.

The following chart shows historic loss, loss adjustment, and underwriting expense ratios to premium (combined ratio) for Texas homeowners. A combined ratio of 90 percent means a 10 percent underwriting profit, and a combined ratio of 110 percent means a 10 percent underwriting loss. Over the last 16 years, insurers did not make an underwriting profit (average underwriting loss of 0.3 percent of premium) in homeowners, but over the last 4 years, insurers have experienced an average underwriting profit of 13.6 percent of premium. However, based on data for the first nine months of 2016, TDI projects insurers will experience an underwriting loss in 2016.



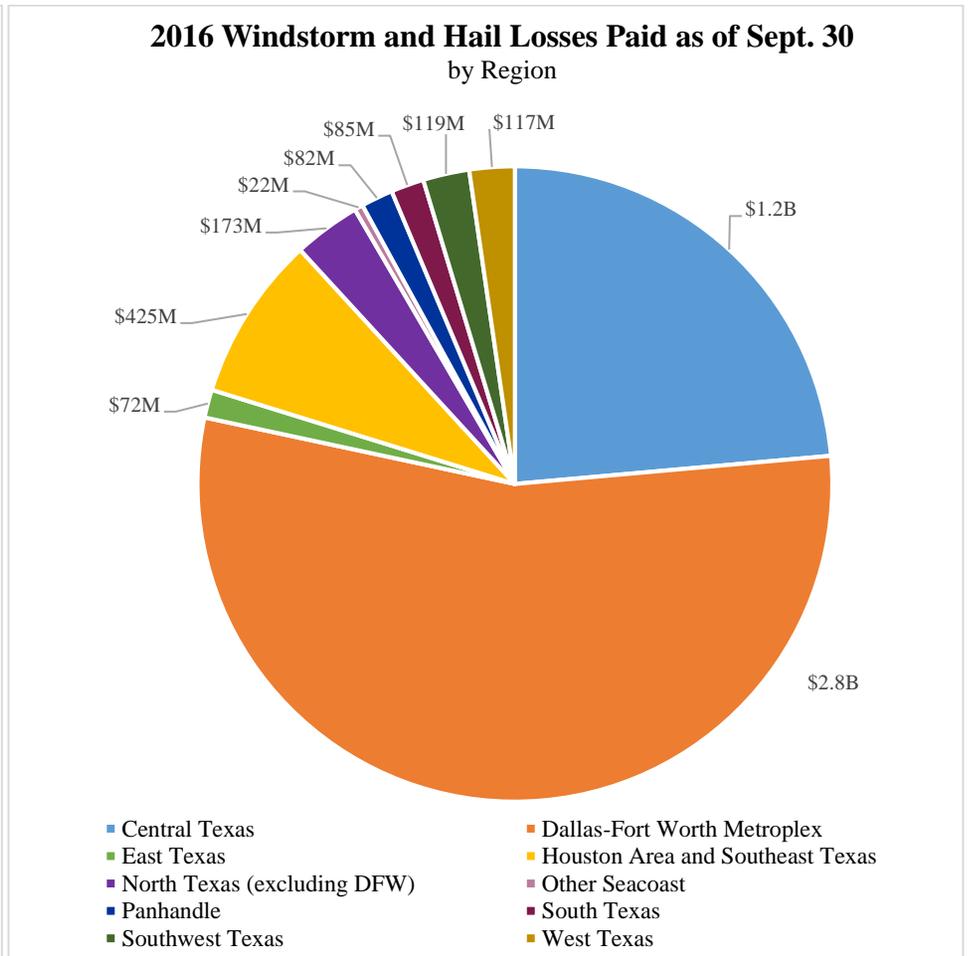
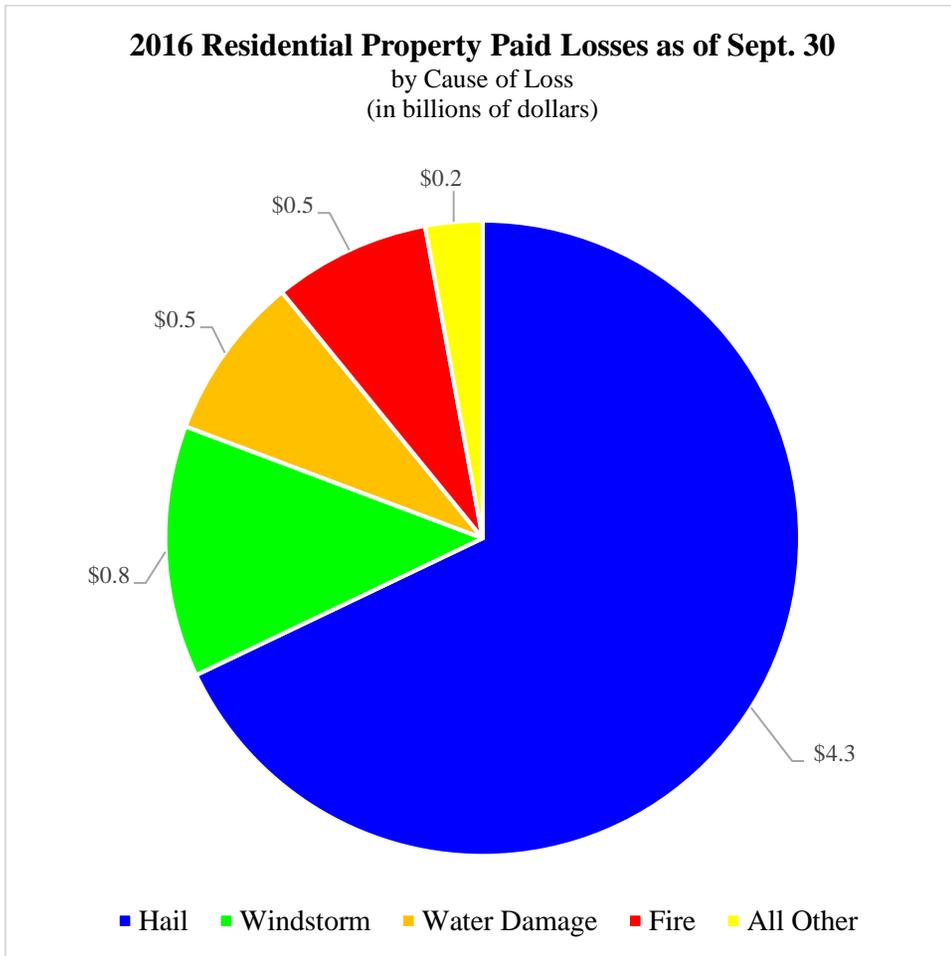
*Includes the FAIR Plan, but excludes TWIA and farm mutual insurers.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

A.2. Preliminary market data for the third quarter of 2016, which TDI received in January 2017, shows that insurers paid approximately \$4.3 billion in residential property hail losses in the first three quarters of 2016. Prior to 2016, the most hail losses insurers paid in a full year was in 2015, when insurers paid about \$1.9 billion in residential property hail losses. While most of the 2016 hail losses are from the Dallas-Fort Worth Metroplex, the April hailstorms in the San Antonio area also contributed to the total hail losses. TDI has no information about litigation on 2016 hail claims.

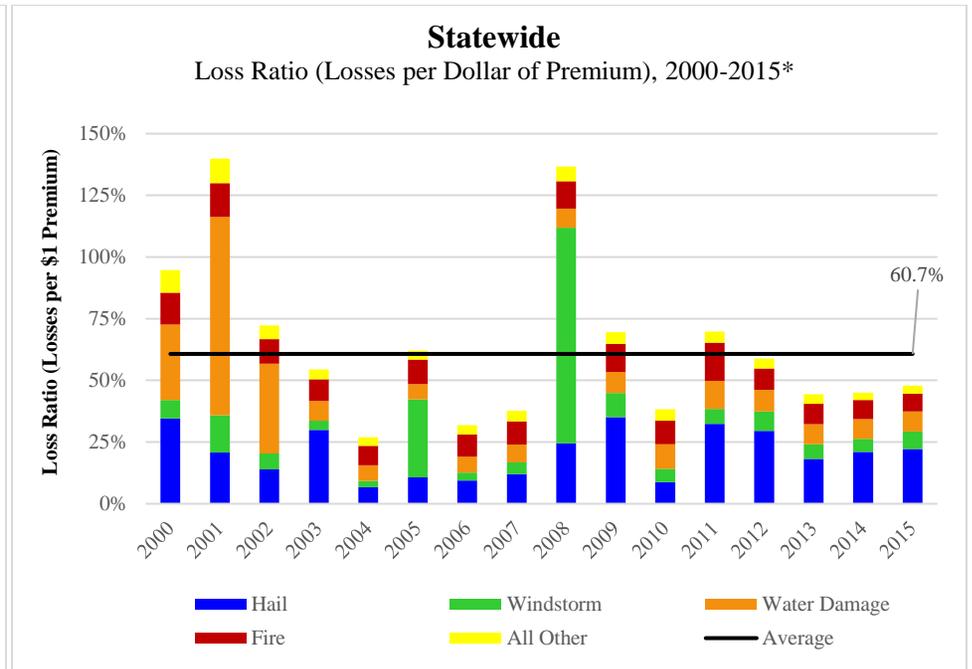
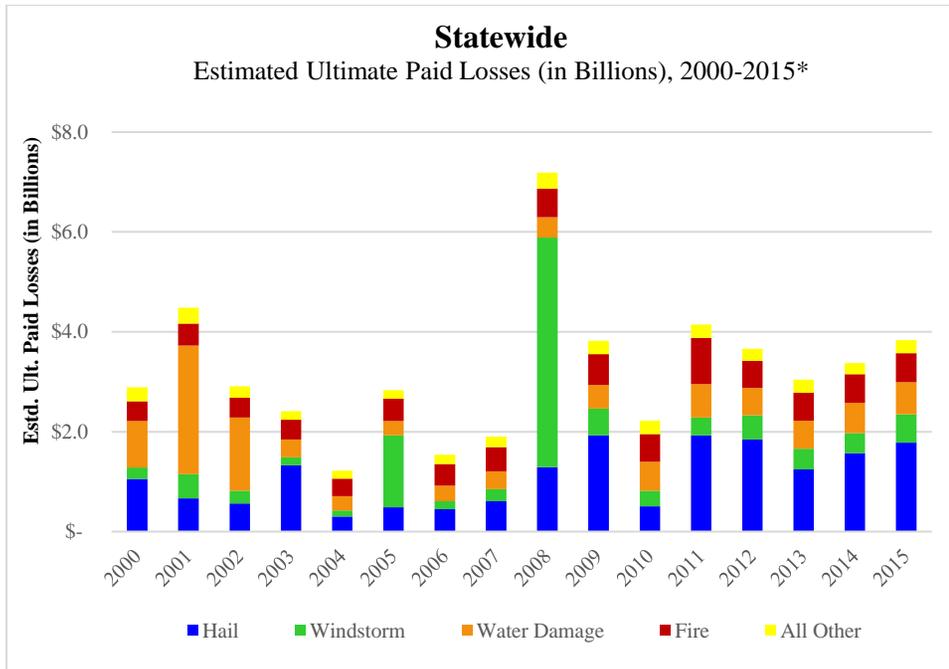


FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

B. TDI also reviewed industry aggregate data it collects under its *Statistical Plan for Residential Risks (Stat Plan)*. All admitted companies writing residential property insurance, except farm mutuals, must report data under the Stat Plan. TDI examined historic loss ratios for all perils by region, as well as historic wind and hail claim frequencies, average loss per claim (severity), and average loss per \$1,000 building coverage. The data shows that historically, windstorm and hail has been a significant part of the cost of insuring Texans.

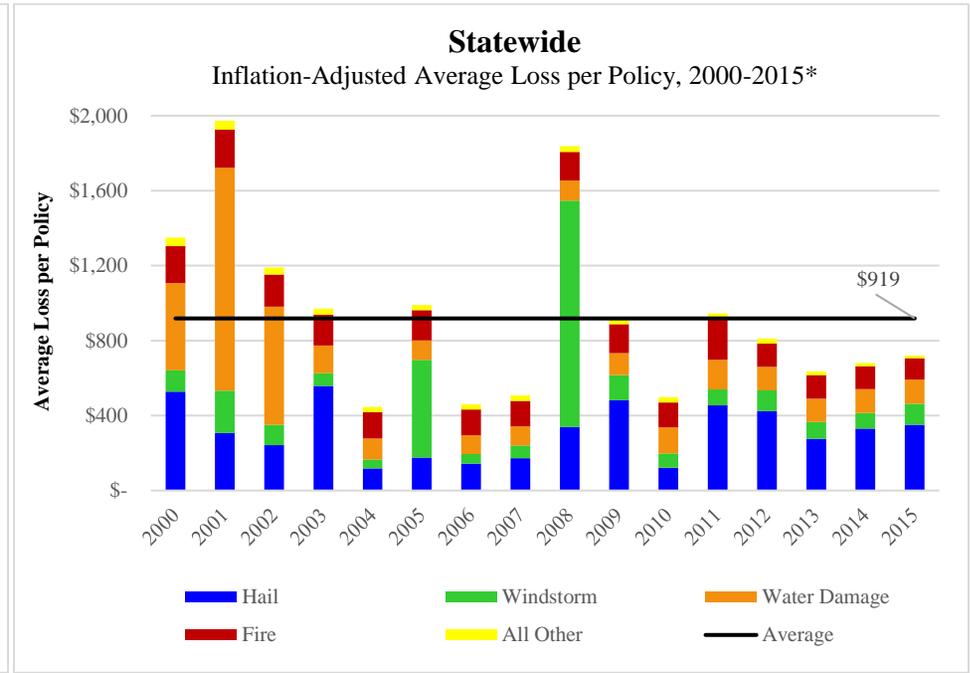
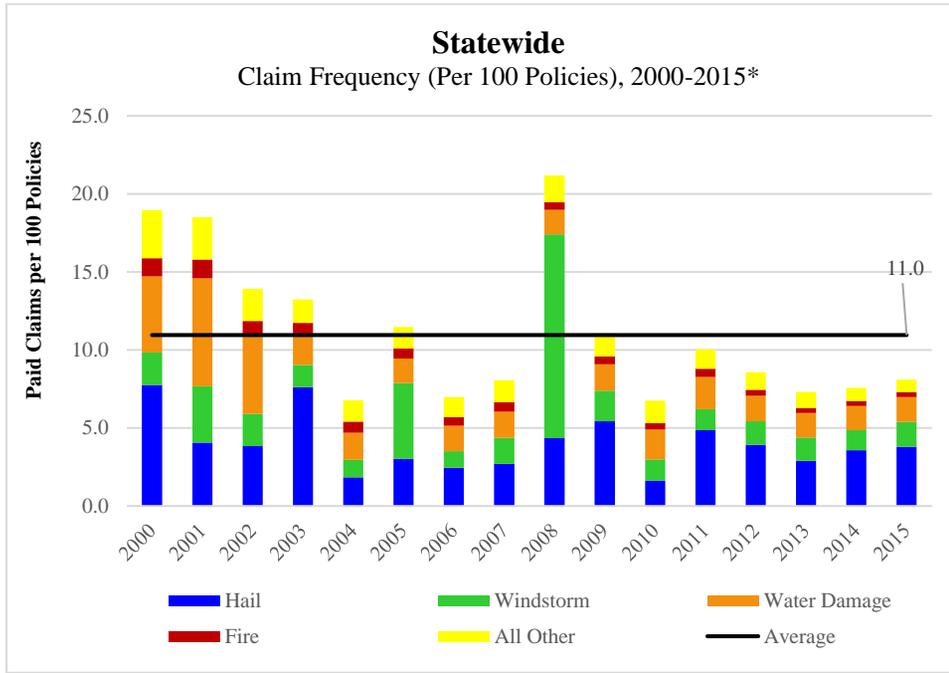


*Claims and losses are on an occurrence year basis and developed by TDI staff to their estimated ultimate settlement value by cause of loss using historic statewide development patterns.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

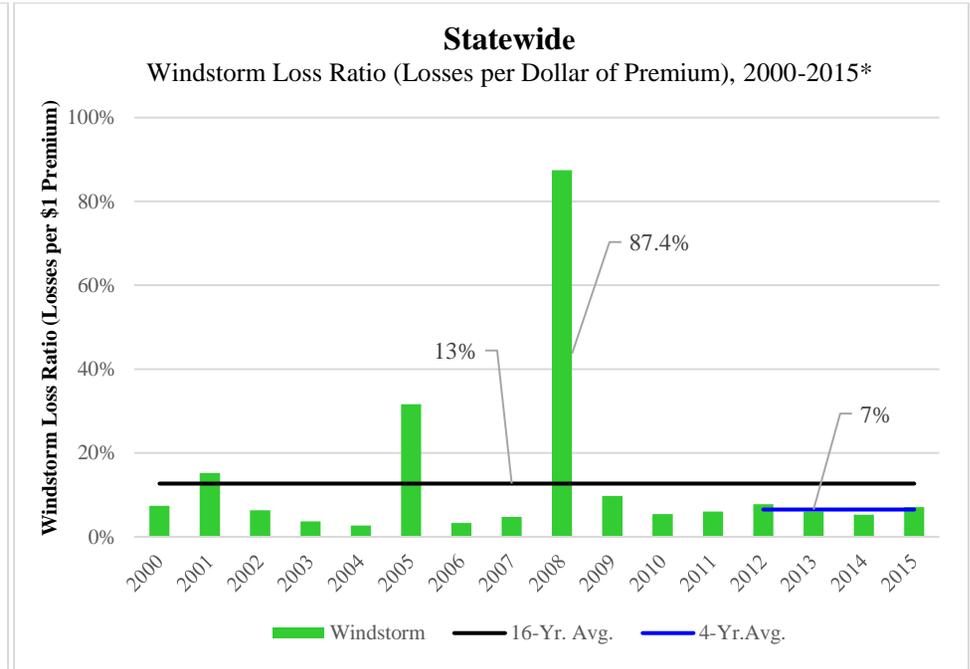
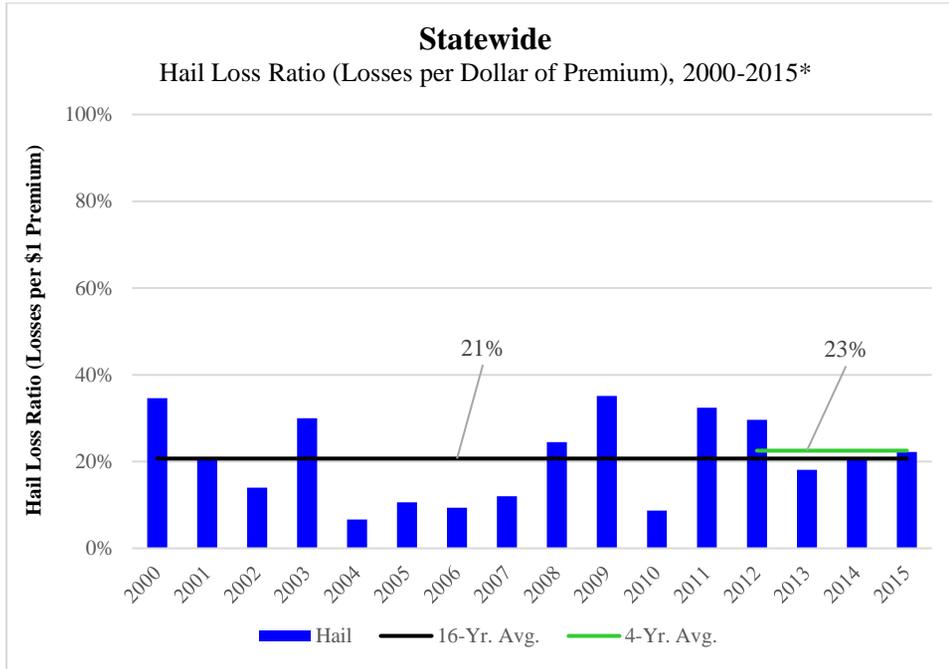


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FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

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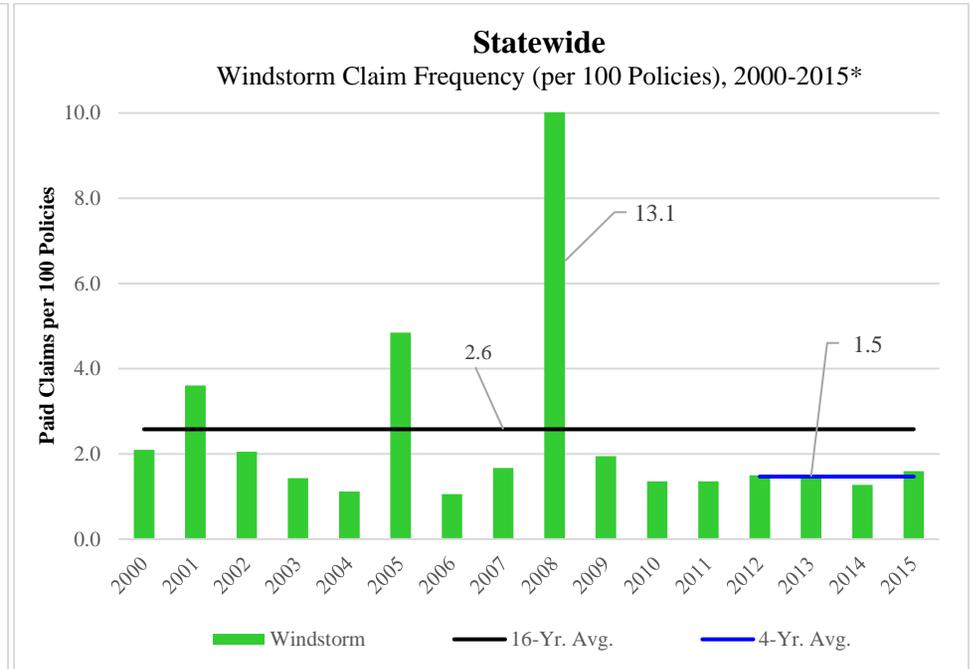
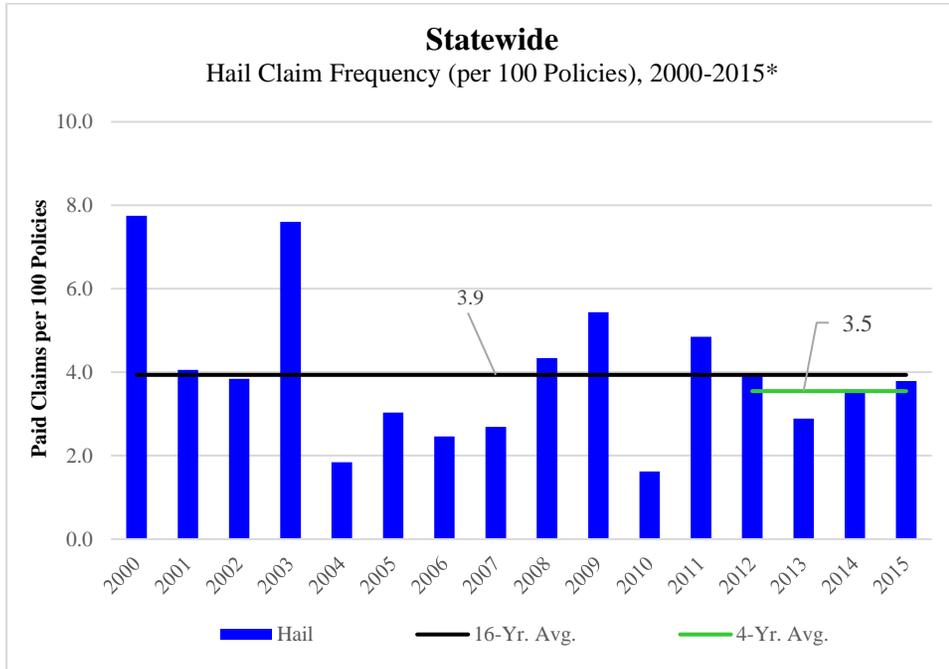
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FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

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- Overall, in the last four years, the frequency of hail claims has been below the 16-year average. Windstorm claim frequency and costs have been below the longer-term historic average, but windstorm claim frequencies are subject to more variability because of hurricanes, which are infrequent but can be severe. However, the cost of hail claims over the last four years is 10 percent above the 16-year average.

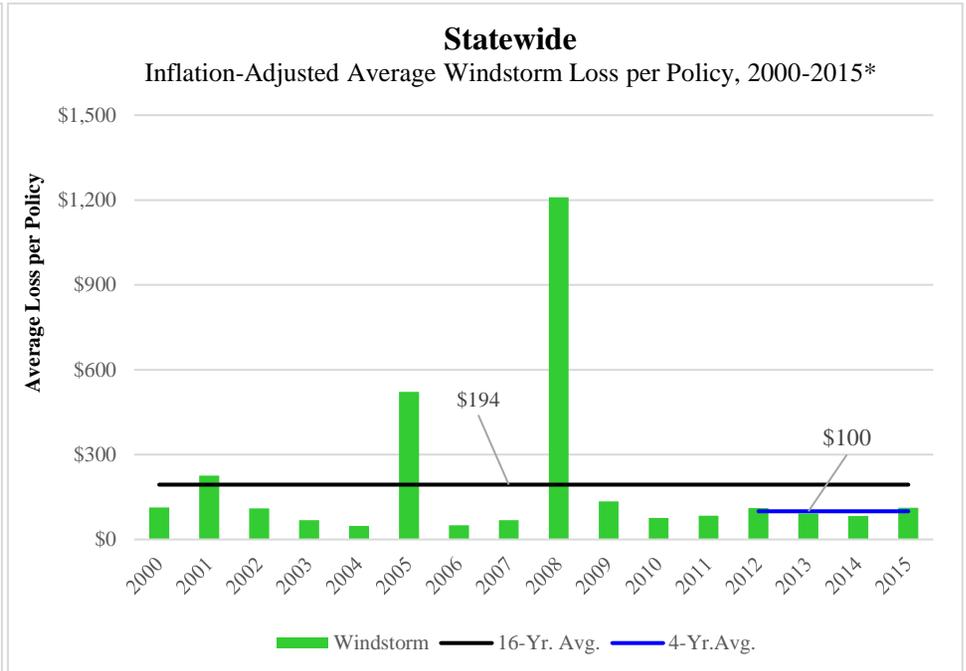
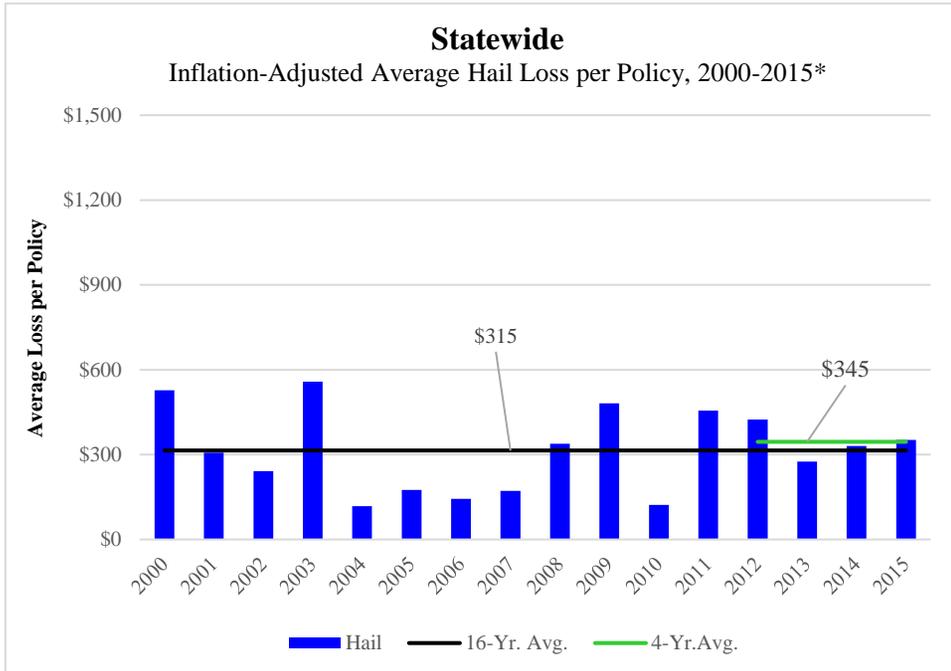


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FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

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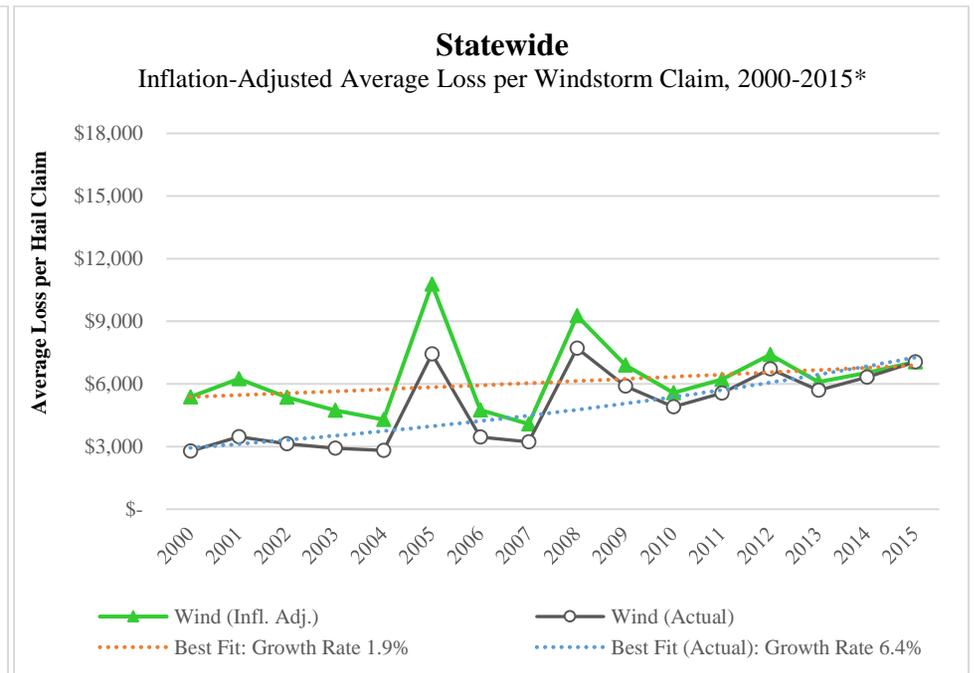
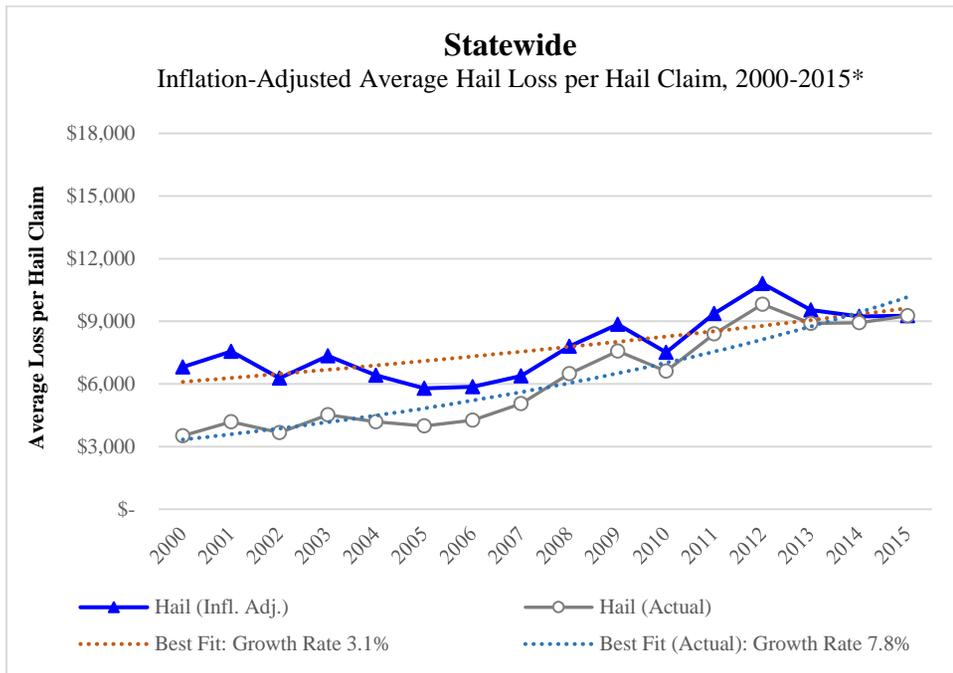
*Claims and losses are on an occurrence year basis and developed by TDI staff to their estimated ultimate settlement value by cause of loss using historic statewide development patterns.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

- The average loss per hail claim has increased 3 percent per year on an inflation-adjusted basis and 7.8 percent before adjusting for inflation. The average loss per windstorm claim has increased 2 percent per year on an inflation-adjusted basis and 6.4 percent before adjusting for inflation. The average cost of windstorm claims tends to spike in years in which there is a hurricane, and part of the increase in the average hail loss per claim may be due to increases in the cost of asphalt shingles, which tend to increase with the price of oil.



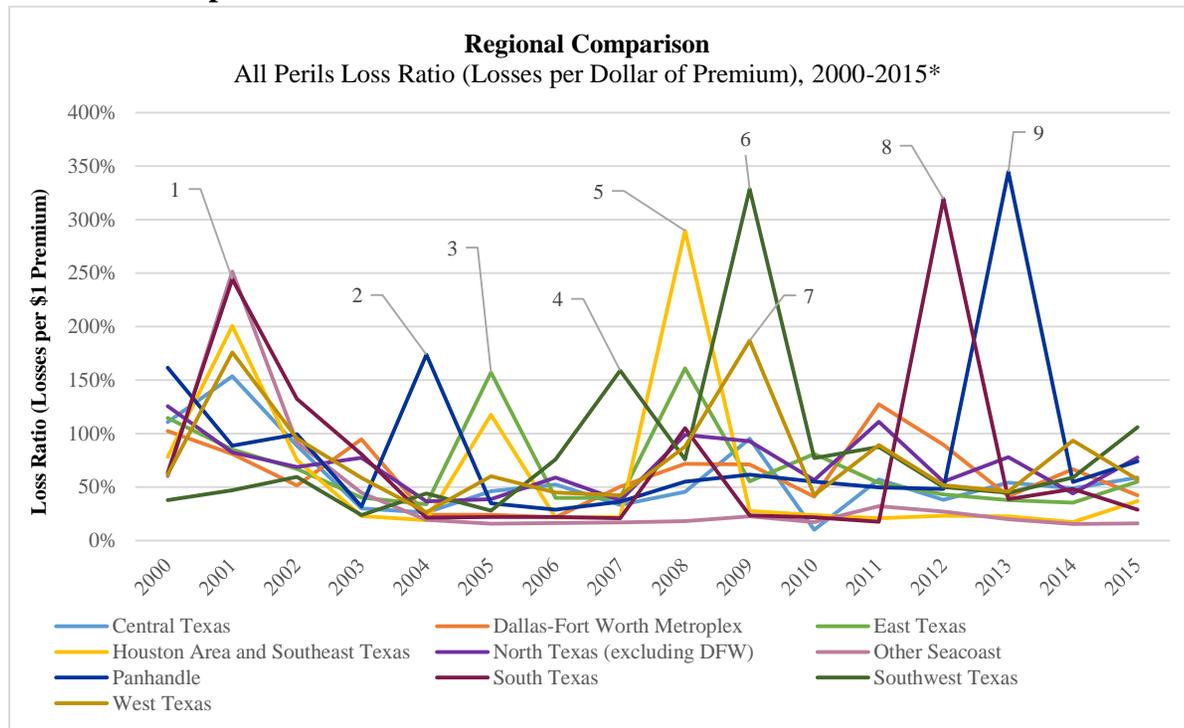
*Claims and losses are on an occurrence year basis (year of loss) and developed by TDI staff to their estimated ultimate settlement value by cause of loss using historic statewide development patterns. Claims were adjusted for inflation based on changes in the average insured value for dwellings.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

C. Regional differences in loss ratios for all perils show the various events that have affected Texas since 2000.



Number	Region (or Regions)	Event
1	Central Texas; Houston Area and Southeast Texas; Other Seacoast	Texas mold crisis
2	Panhandle	June 2004 hailstorm
3	East Texas; Houston Area and Southeast Texas	Hurricane Rita
4	Southwest Texas	May and September 2007 hailstorms
5	Houston Area and Southeast Texas; East Texas; South Texas	Hurricanes Ike and Dolly
6	Southwest Texas	September 2009 hailstorm
7	West Texas	April 2009 hailstorms
8	South Texas	March and April 2012 hailstorms
9	Panhandle	May 2013 hailstorm

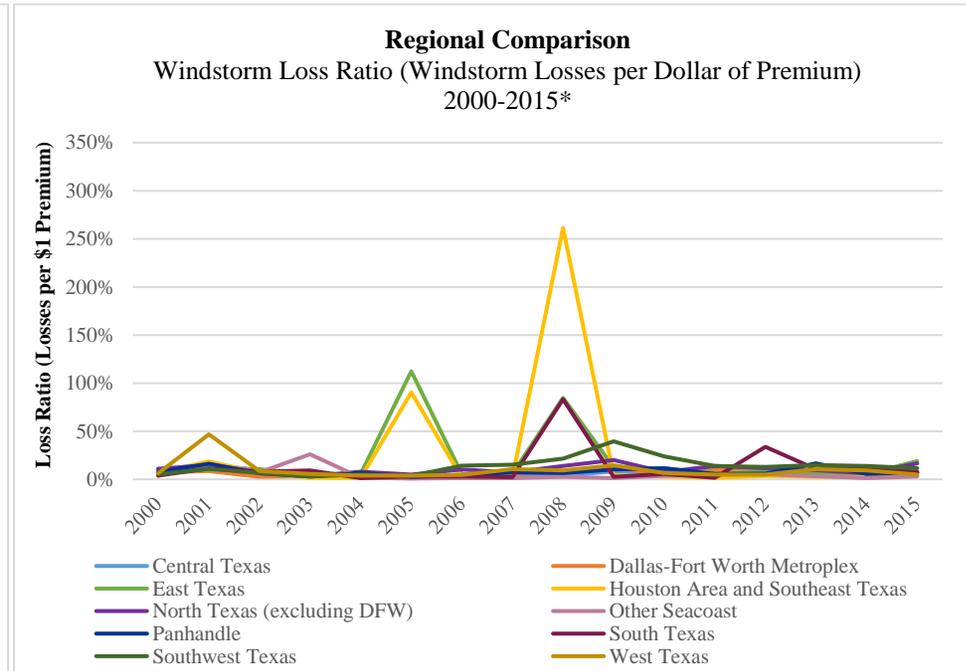
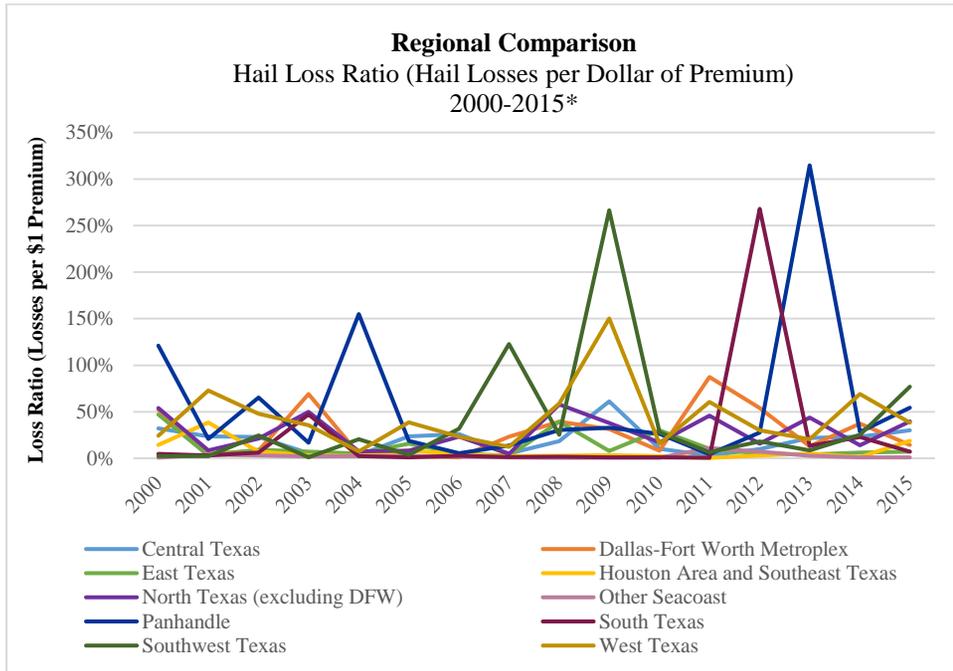
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FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

D. TDI examined its Stat Plan data for trends in windstorm and hail claims by region. The data shows spikes in hail claim frequency in the Panhandle in 2013, and a smaller spike in South Texas in 2012. This means there were large wind or hailstorms in those areas. The data also shows a spike in the average loss per windstorm and hail claim (claim severity) in South Texas, consistent with the data in the Hail Litigation Data Call. There is not an equivalent spike in severity in other parts of Texas. See Page 18 of the supplemental exhibits for more details.

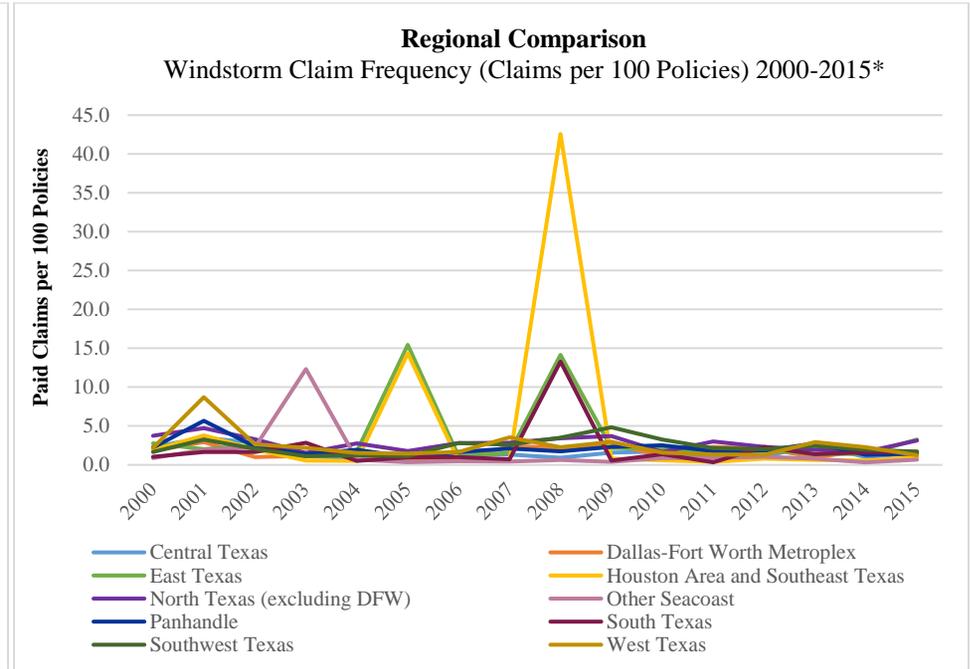
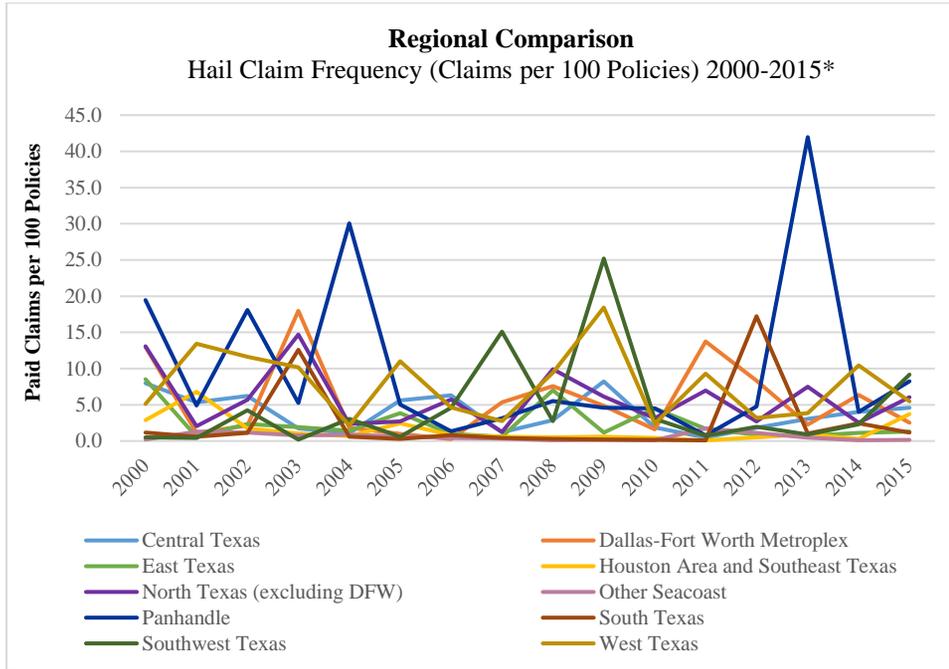


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FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

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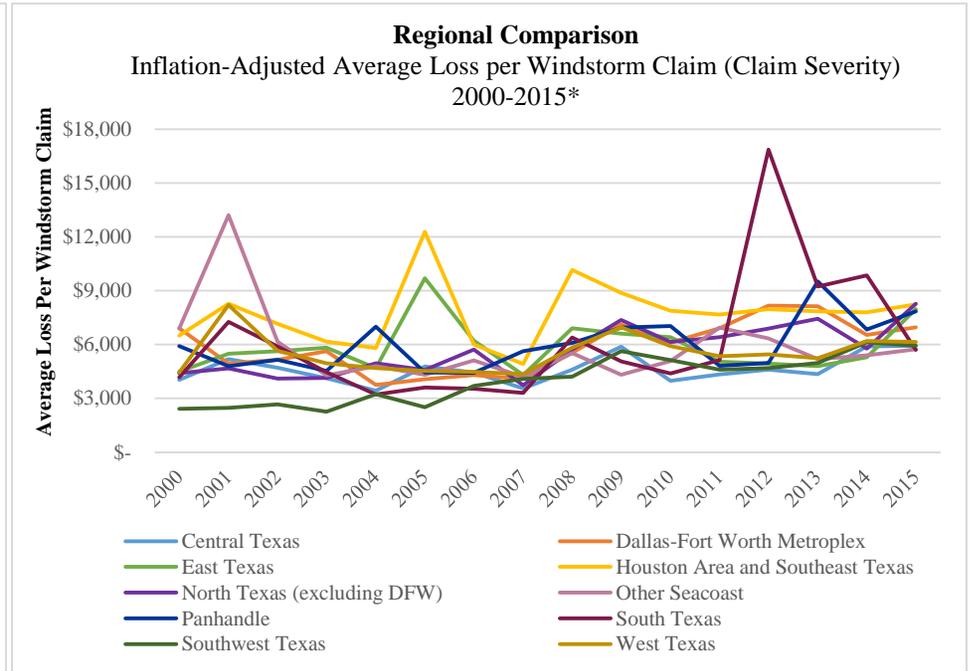
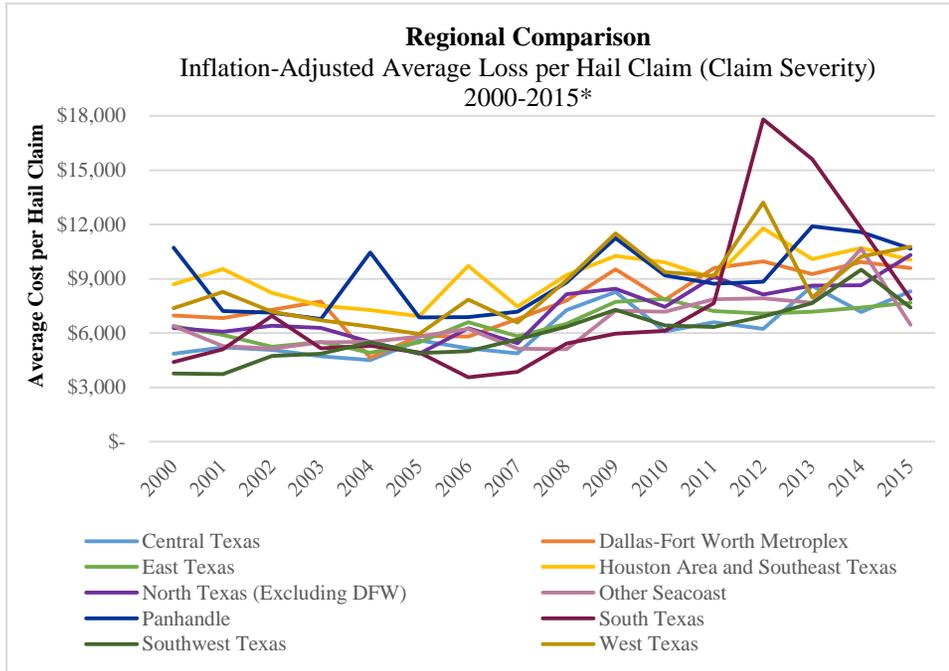


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FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

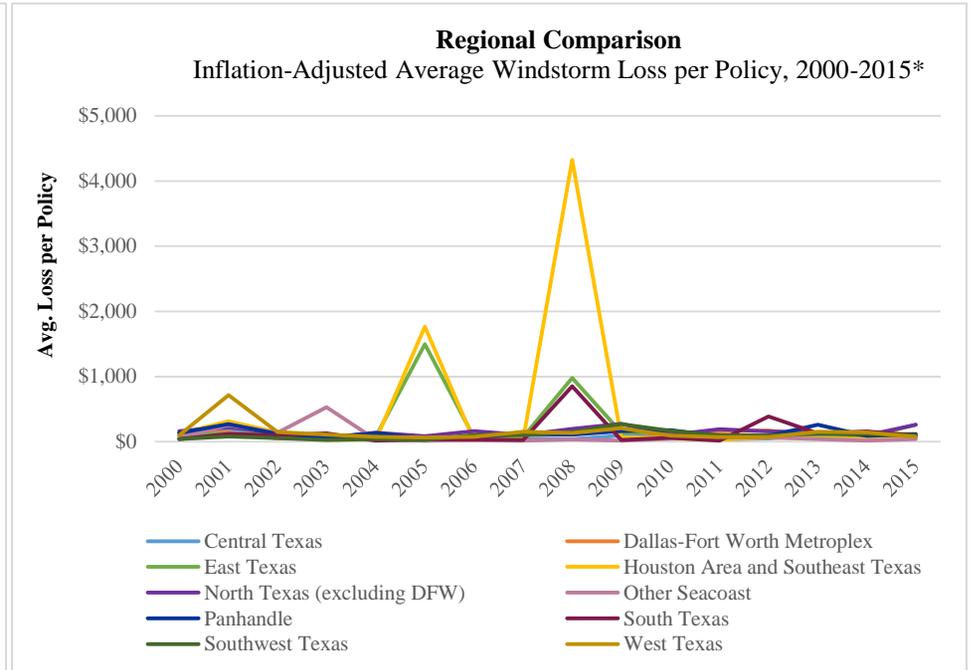
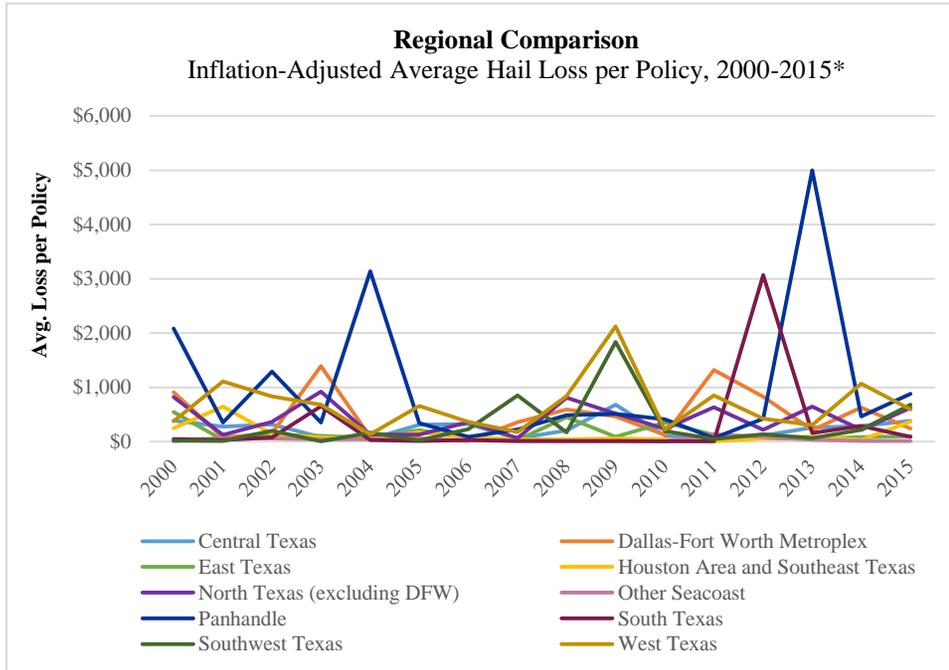


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FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

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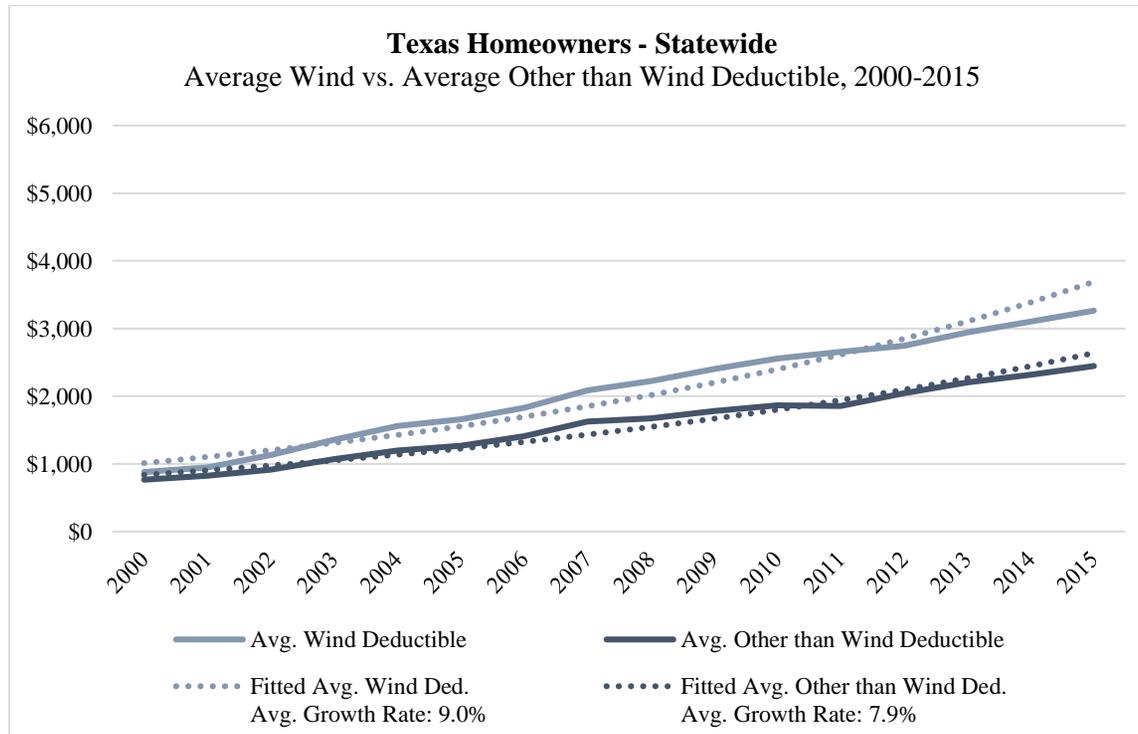
FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

E. TDI also examined market data to determine if it could identify any impacts of weather-related litigation on the types of policy forms purchased, the amount of deductibles purchased, the level of competition in the market place, average premium per policy, and average premium per \$1,000 of coverage purchased.

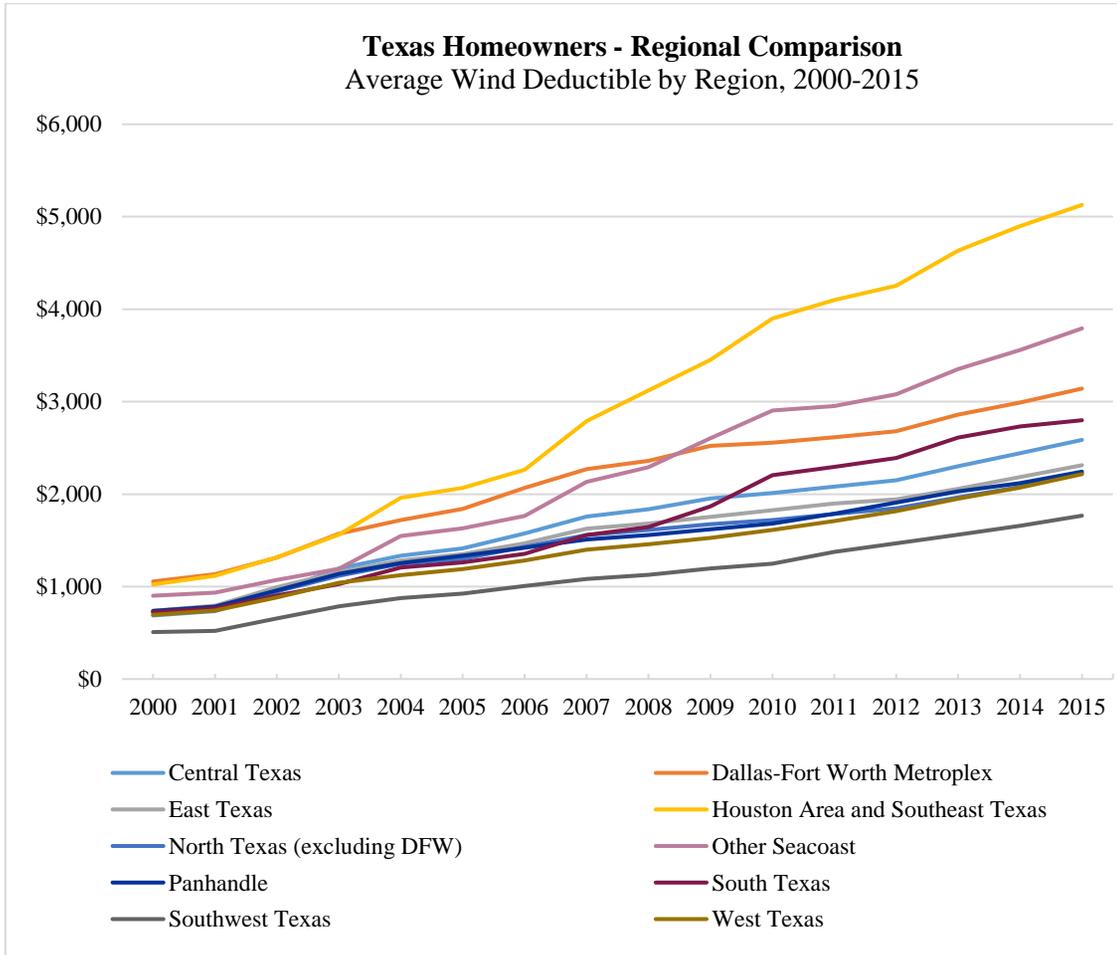
1. While average windstorm and hail deductibles have increased throughout the state and increased substantially in some areas, there is no clear pattern of deductibles increasing in reaction to litigation on claims with weather-related perils. The observed pattern is consistent with insurers increasing deductibles in areas where insurers are concerned with managing hurricane risk exposure.



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Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)



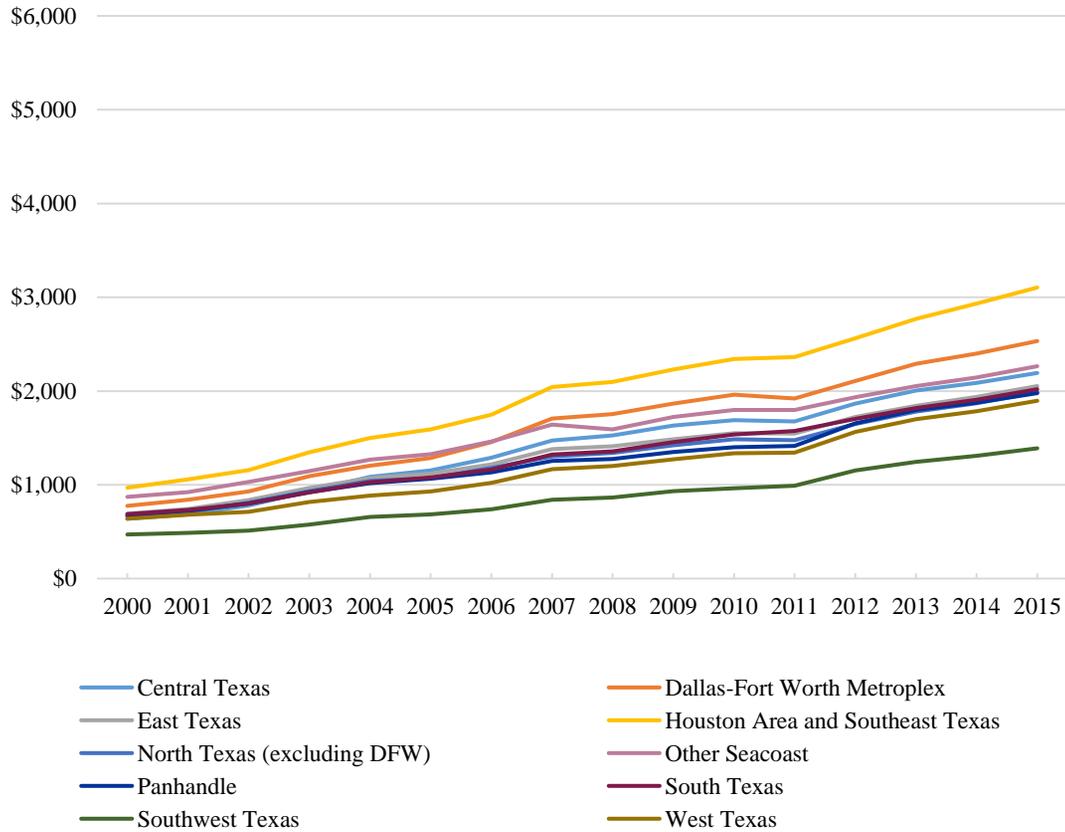
Region	2000-2015 Annual Growth in Wind Deductibles	2012-2015 Annual Growth in Wind Deductibles
Central Texas	8.6%	6.3%
Dallas-Fort Worth Metroplex	7.3%	5.4%
East Texas	7.3%	6.0%
Houston Area and Southeast Texas	11.8%	6.4%
North Texas (excluding DFW)	7.1%	6.3%
Other Seacoast	10.6%	7.1%
Panhandle	7.1%	5.4%
South Texas	9.9%	5.3%
Southwest Texas	8.3%	6.4%
West Texas	7.6%	6.8%
Statewide	9.0%	5.9%

FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

Texas Homeowners - Regional Comparison
Average Other than Wind Deductible by Region, 2000-2015



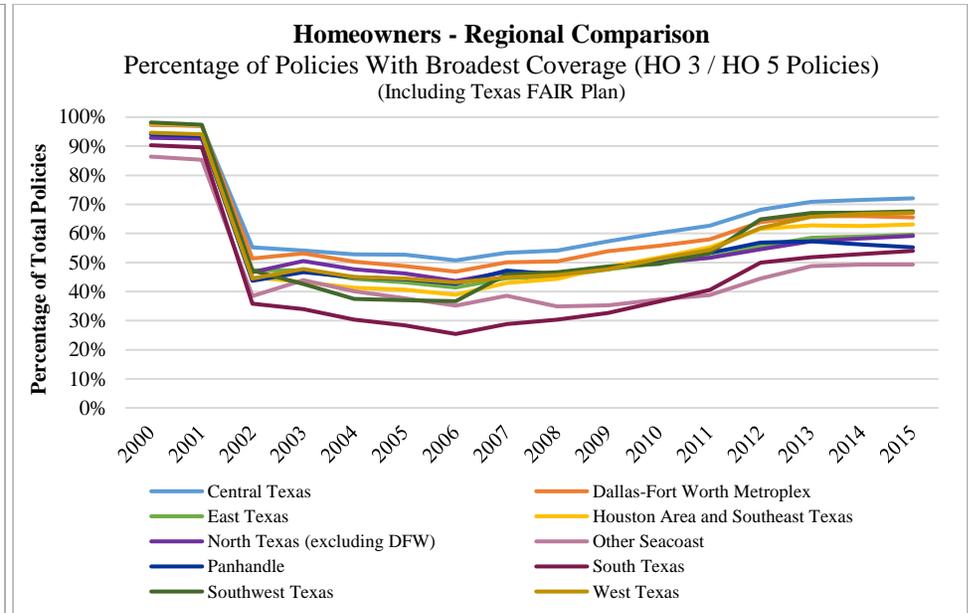
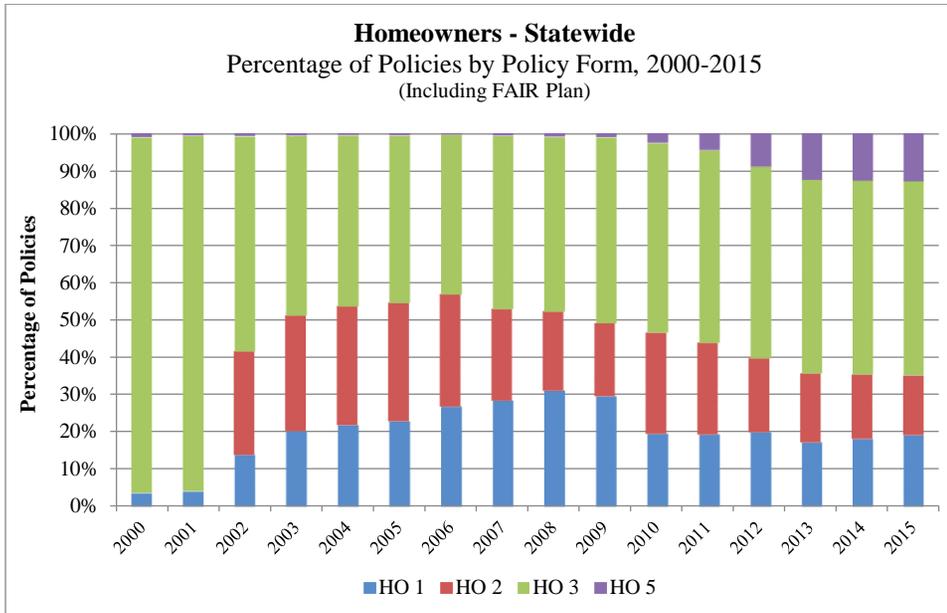
Region	2000-2015 Annual Growth in Other than Wind Deductibles	2012-2015 Annual Growth in Other than Wind Deductibles
Central Texas	8.5%	5.4%
Dallas-Fort Worth Metroplex	8.2%	6.2%
East Texas	7.2%	5.9%
Houston Area and Southeast Texas	8.0%	6.5%
North Texas (excluding DFW)	7.2%	6.3%
Other Seacoast	6.4%	5.3%
Panhandle	7.2%	6.0%
South Texas	7.4%	5.8%
Southwest Texas	7.7%	6.3%
West Texas	7.6%	6.5%
Statewide	7.9%	6.1%

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Residential Property Market Trends

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- Statewide, the percentage of policies with the broadest coverage dropped after the mold crisis of 2002. Since the mid-2000s, this percentage has been increasing, but has remained relatively constant since 2013. While in the last four years the Panhandle has seen a decline in the percent of policies with broadest coverage, TDI found no clear pattern associated with windstorm and hail. The drawback to this type of analysis is that it only looks at the underlying policy form; it does not consider whether insurers have been adding more (or fewer) restrictive (or broadening) endorsements to the policy.



National Policy Form	Texas Policy Form	Type of Coverage	Perils	Loss Settlement
HO 1	HO-A	Named perils for both building and contents	Basic ¹ (bldg. and cont.)	Usually ACV bldg. and cont.
HO 2	HO-A+	Named perils for both building and contents	Broad ² (bldg. and cont.)	Usually RCV bldg. and ACV cont.
HO 3	HO-B	All but excluded perils building; named perils contents	“All Risk” ³ bldg. / Broad ² cont.	Usually RCV bldg. and ACV cont.
HO 5	HO-C	All but excluded perils building and contents	“All Risk” ³ (bldg. and cont.)	Usually RCV bldg. and cont.

¹ Exact perils vary depending on the policy, but commonly include fire, lightning, smoke, windstorm, hurricane, hail, explosion, aircraft and vehicles, vandalism, riot and civil commotion, theft, and premises liability.

² Broad form perils vary depending on the policy, but commonly include basic perils plus falling objects; weight of ice, sleet, or snow; freezing pipes; and some coverage for sudden and accidental water discharge.

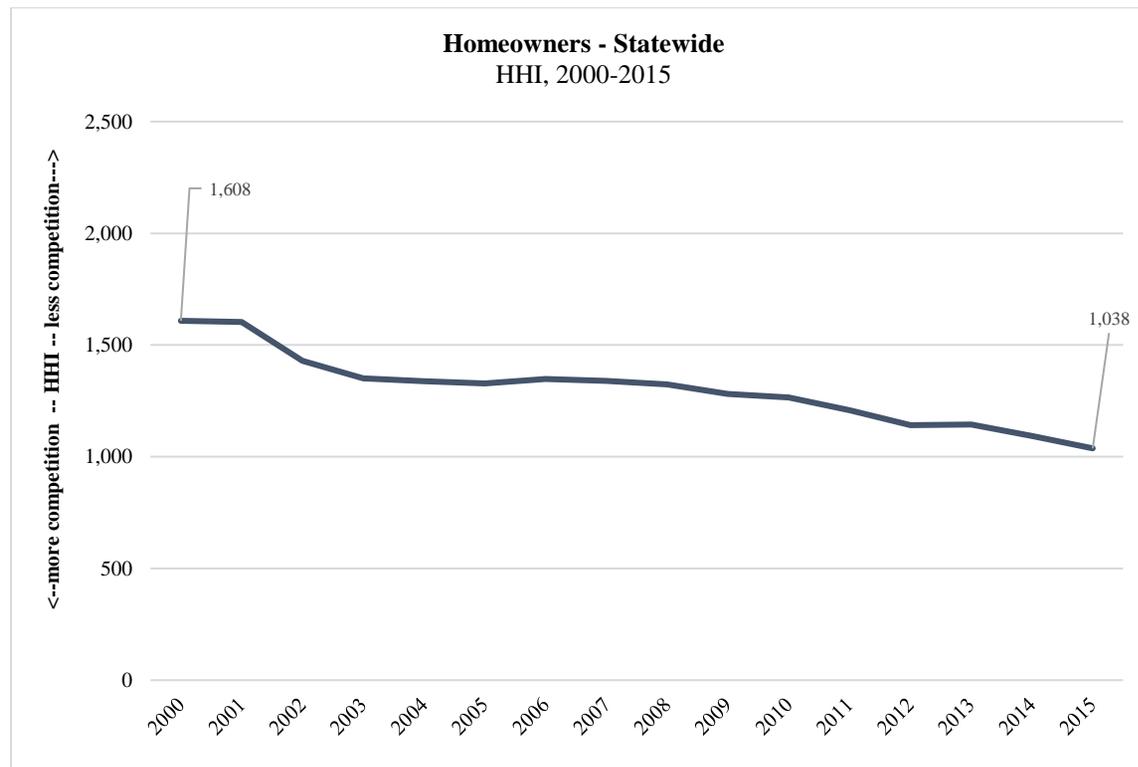
³ Coverage for all perils not specifically excluded in the policy. Exclusions vary by policy, but typically include such things as earthquake; flood; wear and tear; mold, fungus, and rot; mice, insects, and other pests; and continuous and repeated seepage of water.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE

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(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

- 3. The Herfindahl-Hirshman Index (HHI) is a measure of market concentration. The higher the HHI value, the more concentrated a market is and the less competition. The Anti-Trust Division of the U.S. Justice Department considers markets with an HHI value between 1,500 and 2,500 to be “moderately concentrated” and markets with HHI values greater than 2,500 to be “highly concentrated.” Statewide, the homeowners insurance market has become less concentrated with more competition over the last 16 years, with its HHI value decreasing from 1,600 in 2000 to 1,038 in 2015. This downward trend has continued in the last four years.

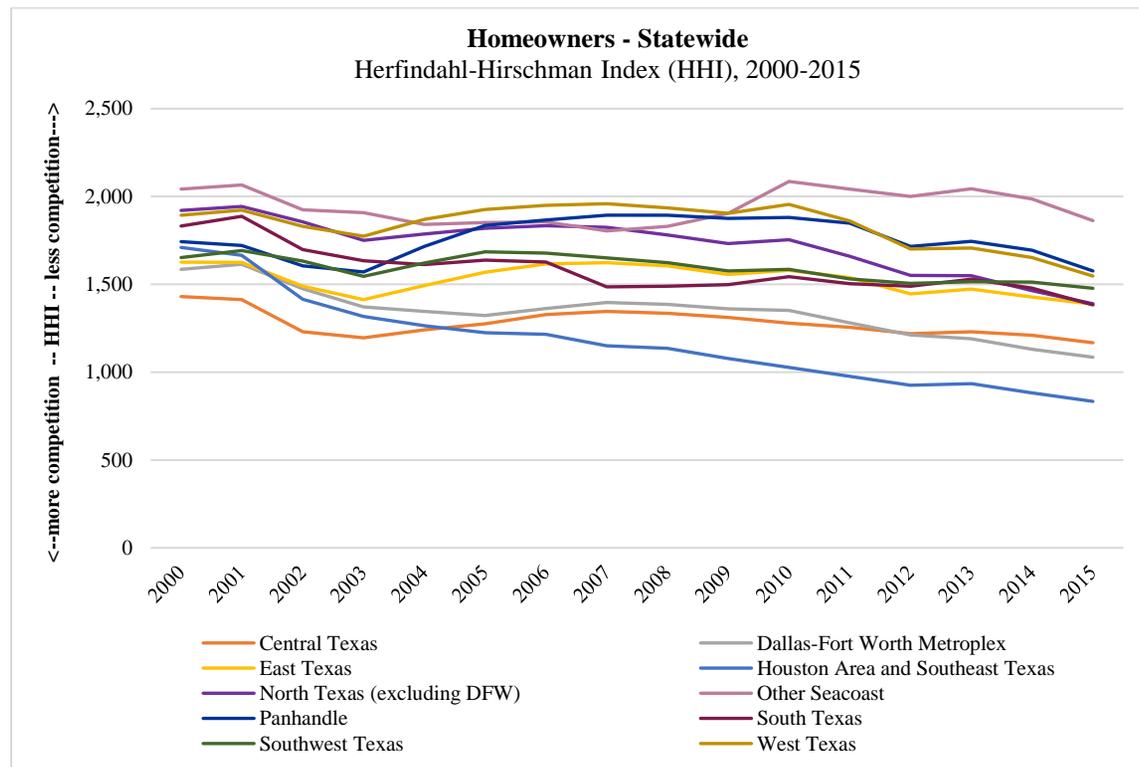


FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

- Over the last 16 years in Texas, the homeowners market has become less concentrated with more competition. Regions with large urban centers such as Houston, Dallas-Fort Worth, San Antonio, and Austin have the lowest HHI values. Houston, North Texas, and South Texas have seen the greatest decline in HHI values. Some of this decrease in market concentration may be due to large insurers reducing or managing their concentration of risk in areas with significant hurricane and hail exposure. The Other Seacoast and the Panhandle regions have shown the smallest declines in HHI values.



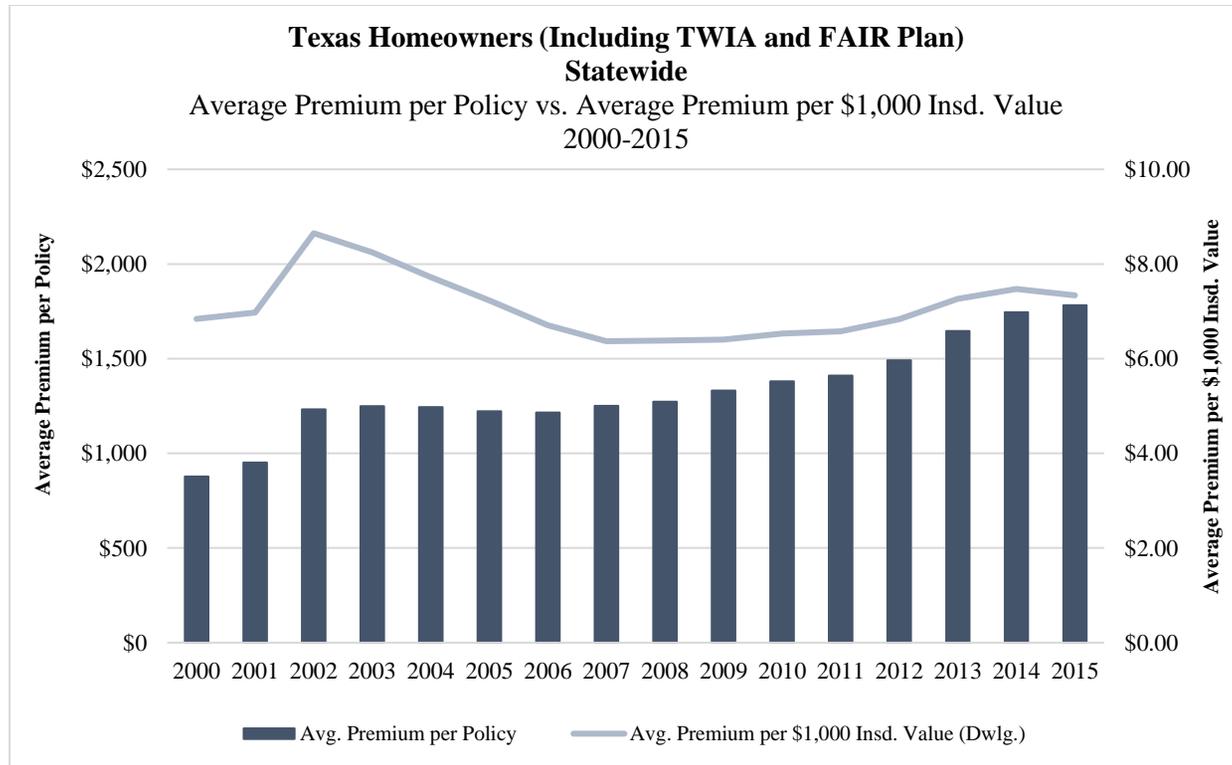
FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

- 5. TDI also looked at how average premiums have changed over the long and short-term. TDI examined the average premium per policy, and the average premium per \$1,000 of insured value of the premium. On average, over the last four years, the statewide average premium per policy has increased 6.3 percent per year, and the statewide average premium per \$1,000 insured value increased 2.5 percent per year. This compares to the same averages over the last 16 years of 3.7 percent and -0.5 percent, respectively.

Changes in the average premium is not the same as average rate changes. Average premiums take into account changes in the amount of coverage homeowners purchase as well as rate changes. For example, as the cost to repair homes increases, so do the policy limits purchased by homeowners. Increasing (or decreasing) deductibles will decrease (or increase) the average premium if all other factors are held constant. Similarly, average premium can be affected if, on average, policyholders purchase broader (or more restrictive) coverage.

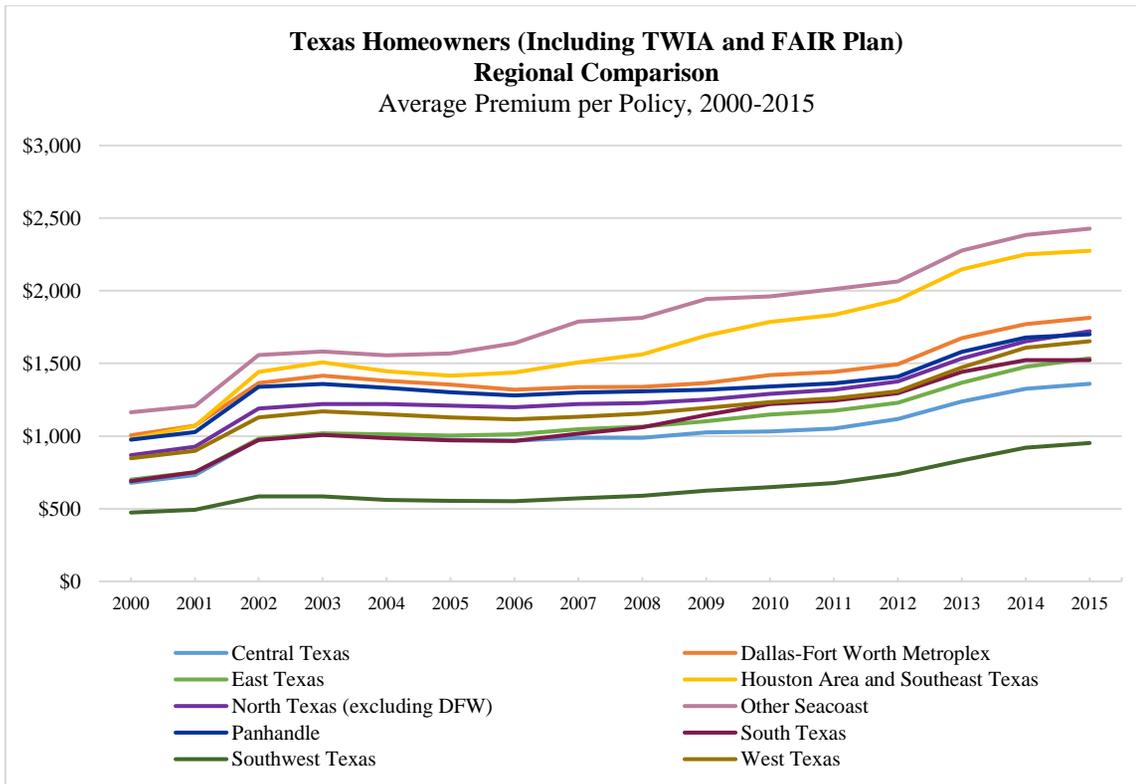


FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

6. The average premium per policy varies by region. This is a function of differences in: the level and types of hazards in each region, the average insured value in each region, and average amounts of deductibles purchased in each region. Over the last four years, average premiums have increased the most in Southwest Texas, West Texas, North Texas (excluding DFW); they have increased the least in Houston and Southeast Texas, South Texas, and the Other Seacoast region. Despite these changes, the highest average premiums are in the Other Seacoast region, and the lowest average premiums are found in Southwest Texas.



Region	2000-2015 Annual Growth in the Average Premium per Policy	2012-2015 Annual Growth in the Average Premium per Policy
Central Texas	3.4%	6.8%
Dallas-Fort Worth Metroplex	2.8%	6.6%
East Texas	4.2%	7.7%
Houston Area and Southeast Texas	4.9%	5.5%
North Texas (excluding DFW)	3.4%	7.8%
Other Seacoast	4.5%	5.5%
Panhandle	2.6%	6.4%
South Texas	4.7%	5.5%
Southwest Texas	4.1%	9.0%
West Texas	3.4%	8.2%
Statewide	3.7%	6.3%

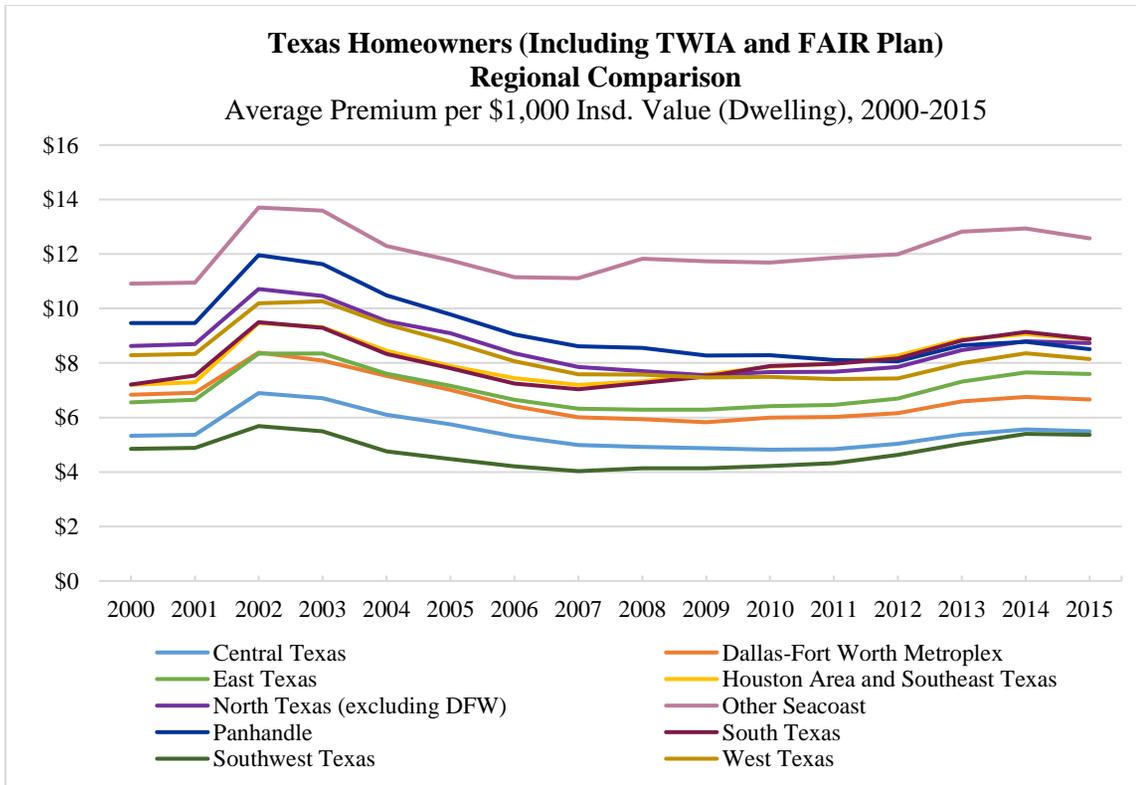
FINAL PRESENTATION TO THE TEXAS LEGISLATURE

Residential Property Market Trends

(All Data Excludes TWIA, FAIR Plan, and Farm Mutual Insurers Unless Otherwise Indicated)

7. Since regional average premiums depend on the average insured value in each region, TDI also looked at regional differences in the average premium per \$1,000 insured value of the dwelling. Over the last four years, South and East Texas saw the largest increases in the average premium per \$1,000 insured value, and the Panhandle and the Other Seacoast region saw the smallest increases. Despite these changes, the highest average premiums per \$1,000 are in the Other Seacoast region, and the lowest average premiums per \$1,000 are found in Southwest Texas.

TDI did not find a clear pattern of average premiums increasing greater than the statewide average in areas experiencing increased amounts of attorney/PA involvement and litigation.



Region	2000-2015 Annual Growth in the Average Premium per Policy	2012-2015 Annual Growth in the Average Premium per Policy
Central Texas	-1.1%	3.0%
Dallas-Fort Worth Metroplex	-1.2%	2.6%
East Texas	-0.2%	4.3%
Houston Area and Southeast Texas	0.6%	2.4%
North Texas (excluding DFW)	-1.1%	3.6%
Other Seacoast	0.3%	1.5%
Panhandle	-1.8%	1.8%
South Texas	0.5%	2.9%
Southwest Texas	-0.1%	5.3%
West Texas	-1.2%	3.3%
Statewide	-0.5%	2.5%

PART IV

UNDERWRITING ACTIONS AND RATE CHANGES

FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Withdrawals and Underwriting Actions Survey
(All Data Excludes TWIA and the FAIR Plan)

A. The Underwriting Action Survey responses indicate that mostly small companies are taking underwriting and rate actions as a direct result of increased claims litigation from weather-related perils in Texas. The survey asked questions about residential property policies written either statewide or in a particular geographic region of Texas.

Withdrawals and Restriction Plans

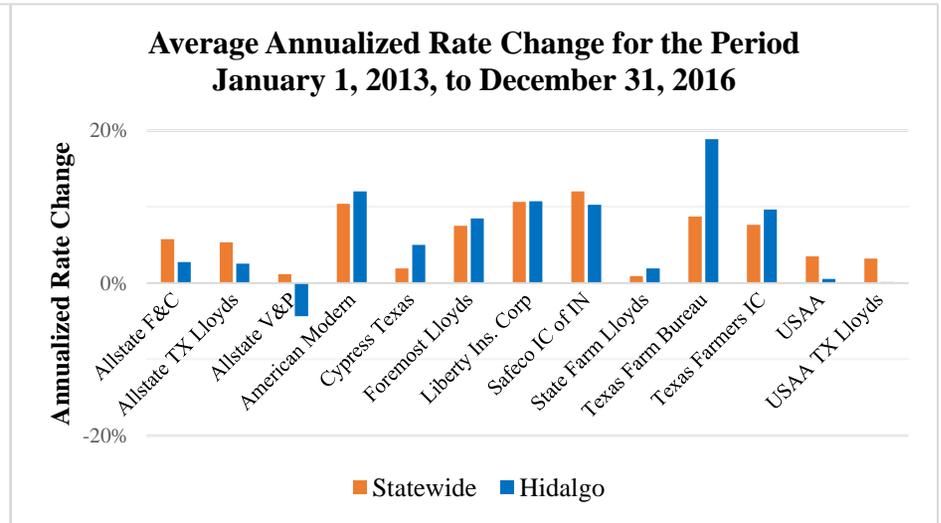
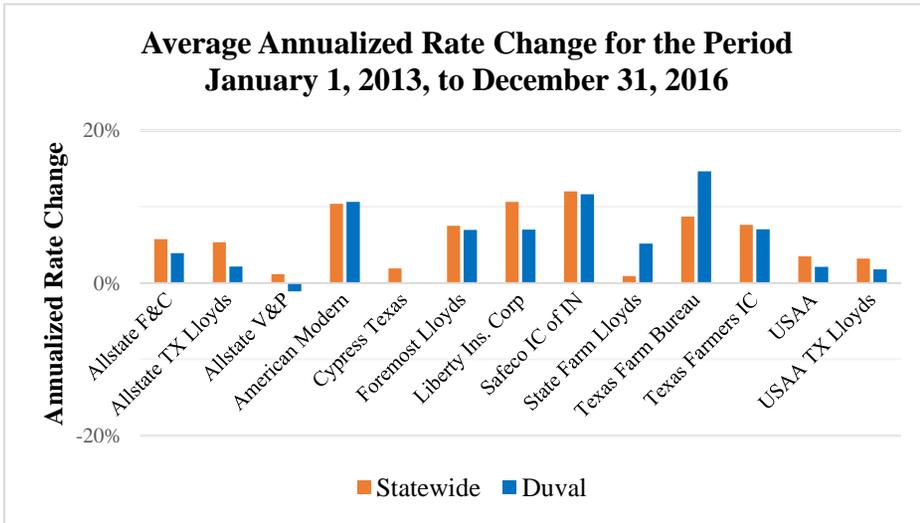
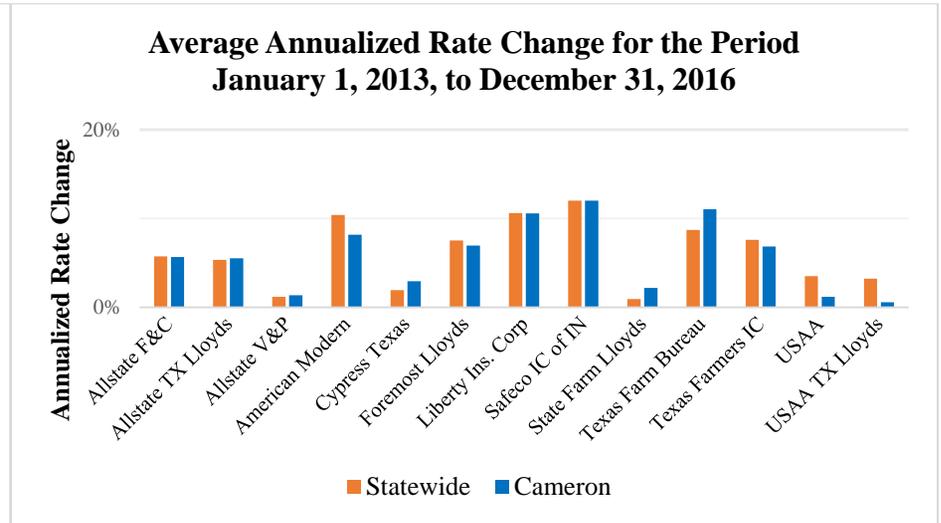
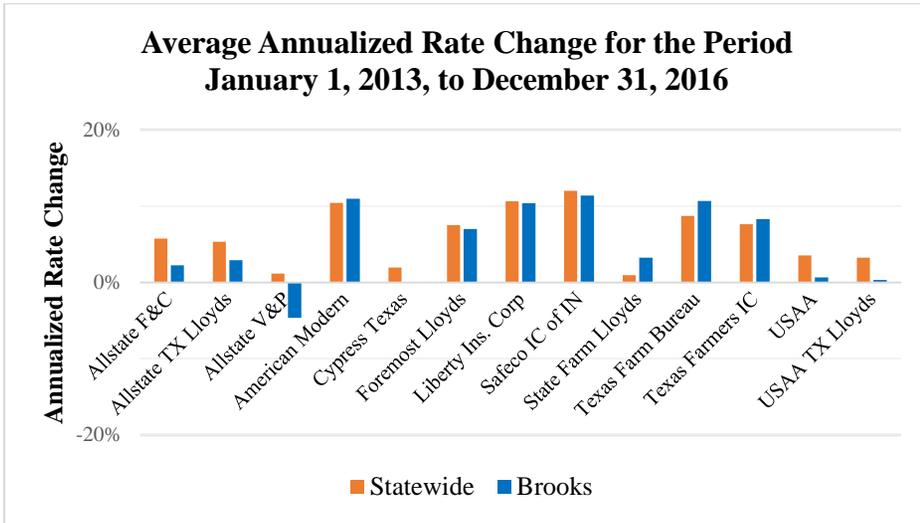
- Insurance Code Chapter 827 and 28 Texas Administrative Code §§7.1801-7.1808 allow a company to withdraw or cease writing lines of insurance in Texas with prior approval from the commissioner. A company must submit a withdrawal plan if the company proposes to reduce
 - the company's total annual premium volume by 50 percent or more
 - the company's annual premium by 75 percent or more in a line of insurance in Texas
 - in this state, or in any applicable rating territory, the company's total annual premium volume in a line of personal automobile or residential property insurance by 50 percent or more.
- From January 1, 2011, through August 31, 2016, 20 companies filed withdrawal plans from writing homeowners insurance in Texas. Of these, two companies cited increasing claim and legal costs or catastrophic weather as the reason for withdrawal. Ten of the withdrawals were the result of a merger, acquisition, or the transfer of policies to other companies.
- A company may reduce or restrict its writing in certain geographic areas without filing a withdrawal plan.

Underwriting Action Survey Responses

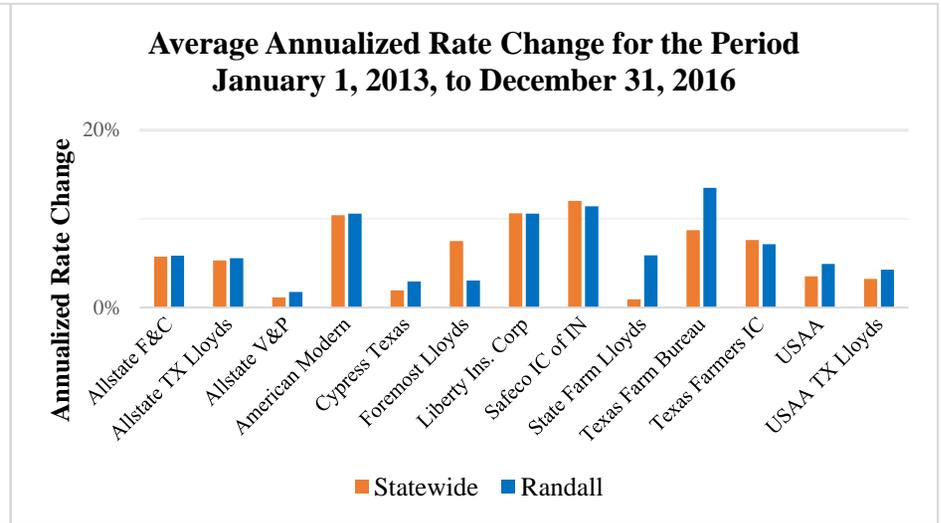
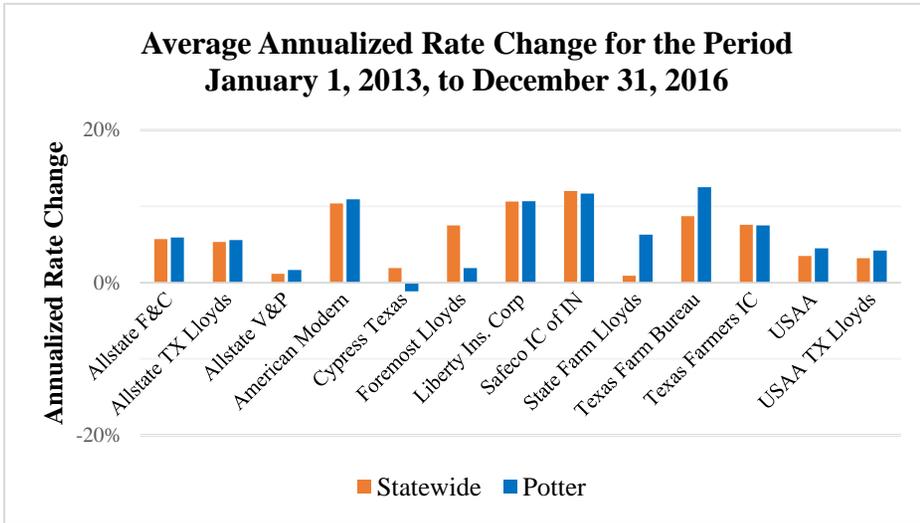
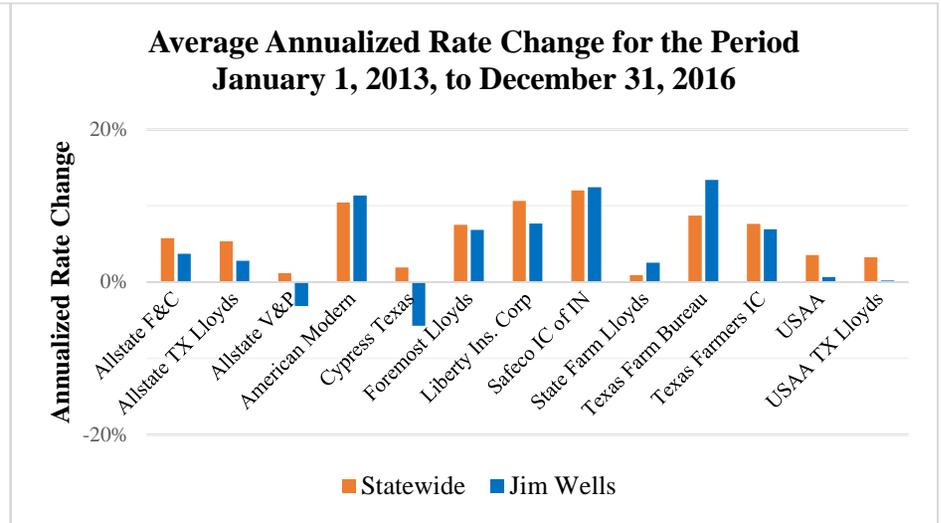
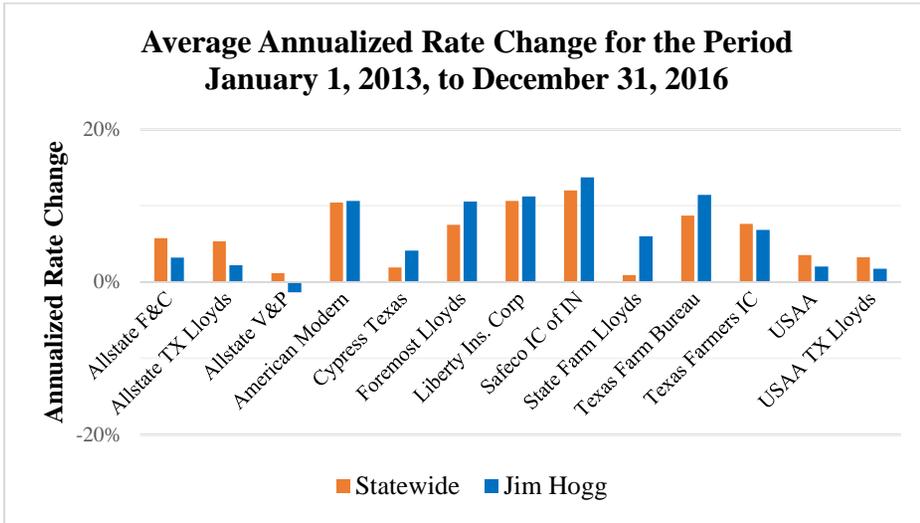
- Seven companies intentionally reduced, limited, or stopped writing policies; two of those also nonrenewed policies. The counties affected include Hidalgo, Maverick, Webb, Potter, and Randall.
- Fourteen companies increased their use of restrictive endorsements, tightened their underwriting guidelines, or did both for new or renewal business.
 - Specific geographic regions include coastal areas of Texas and Cameron, Willacy, and Hidalgo counties.
- One company increased its minimum wind deductible for new business policies statewide.
- Twelve companies increased rates for a residential line of insurance.

FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Filed Rate Changes for Certain Counties

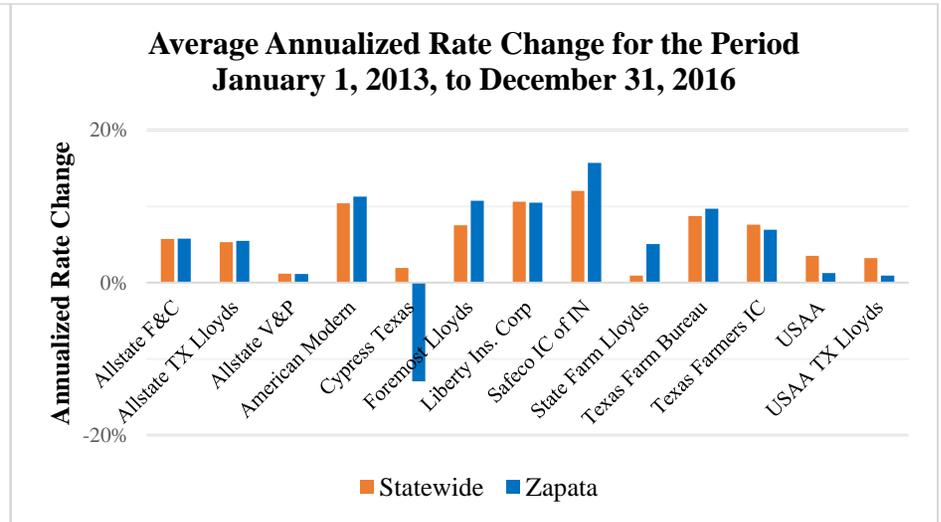
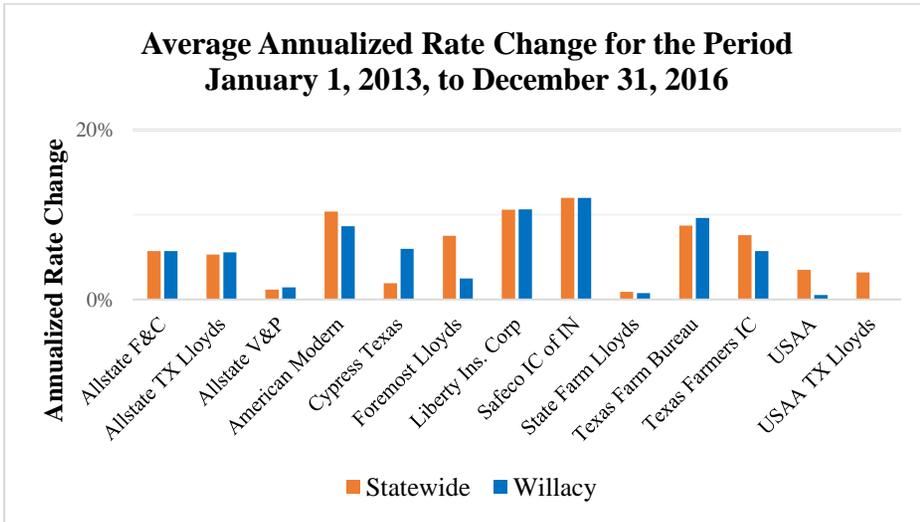
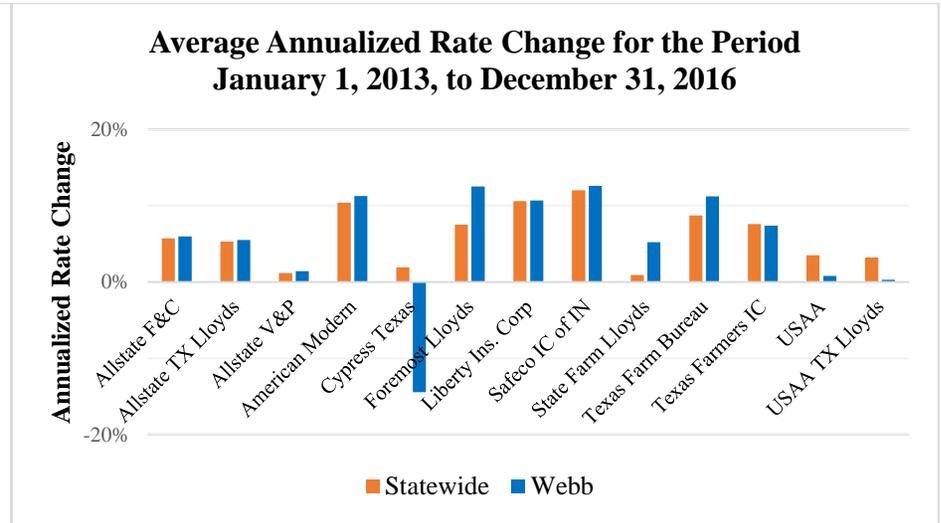
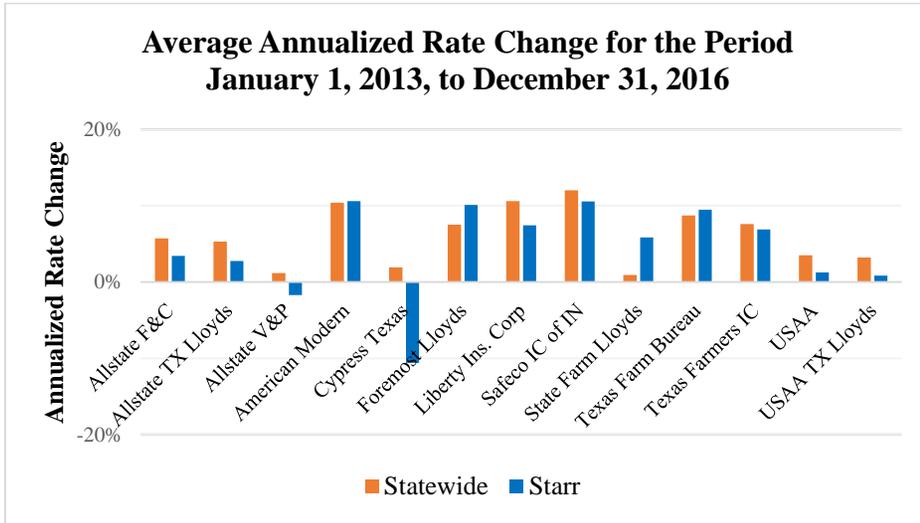
B. TDI reviewed data from rate filings made by insurers with significant market share in areas that have reportedly experienced increased levels of hail litigation. For these areas, the data does not show a systematic pattern of rate increases that exceed the statewide increase. Rates follow losses, however, so companies may not have reflected expected costs for hail litigation in their rates.



FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Filed Rate Changes for Certain Counties



**FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Filed Rate Changes for Certain Counties**



FINAL PRESENTATION TO THE TEXAS LEGISLATURE
Filed Rate Changes for Certain Counties

C. There does not appear to be a systematic pattern of rate changes in these counties relative to the overall statewide rate changes.

